July 9, 2013

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Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
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Your reference	Our reference
EB-2012-0451	01015413-0032
EB-2012-0433	01015413-0033
EB-2013-0074	01015413-0034

Dear Ms. Walli:

Enbridge GTA Project (EB-2012-0451)
Union Parkway West Project (EB-2012-0433)
Union Brantford-Kirkwall Parkway D (EB-2013-0074)

Please find attached APPrO’s submission with respect to the motion filed by Union Gas Limited and Gaz Metro Limited Partnership on June 21, 2013.

Yours very truly,

Original signed by

John Beauchamp
Associate

JB/mnm

Enclosure

Cop(y/ies) to: All interested parties

DOCSTOR: 2757225\1

ONTARIO ENERGY BOARD

IN THE MATTER OF an application by Enbridge Gas Distribution Inc. for: an order or orders granting leave to construct a natural gas pipeline and ancillary facilities in the Town of Milton, City of Markham, Town of Richmond Hill, City of Brampton, City of Toronto, City of Vaughan and the Region of Halton, the Region of Peel and the Region of York; and an order or orders approving the methodology to establish a rate for transportation services for TransCanada Pipelines Limited;

AND IN THE MATTER OF an application by Union Gas Limited for: an Order or Orders for pre-approval of recovery of the cost consequences of all facilities associated with the development of the proposed Parkway West site; an Order or Orders granting leave to construct natural gas pipelines and ancillary facilities in the Town of Milton; an Order or Orders for pre-approval of recovery of the cost consequences of all facilities associated with the development of the proposed Brantford-Kirkwall/Parkway D Compressor Station project; an Order or Orders for pre-approval of the cost consequences of two long term short haul transportation contracts; and an Order or Orders granting leave to construct natural gas pipelines and ancillary facilities in the City of Cambridge and City of Hamilton.

Submissions of the Association of Power Producers of Ontario (APPrO) in the Motion by Union Gas and Gaz Metro Inc. to compel Enbridge to be STAR compliant.

Background to Power Generation in Ontario

1. APPrO is a non-profit organization representing more than 100 companies involved in the generation of electricity in Ontario, including generators and suppliers of services, equipment and consulting services. APPrO members produce power from natural gas, as well as hydro, gas, coal, nuclear, wind, waste wood and other sources. 95% of Ontario's electricity comes from APPrO members.

2. APPrO made written submissions in the 2010 OEB Natural Gas Market Review EB-2010-0199 regarding the current and changing nature of the power generation market in Ontario, a copy of which is contained in Appendix A.

3. Within those submissions APPrO agreed with many of the key findings in the Board Staff's Consultants (ICF) report concerning the natural gas market. These findings should help inform the Board as to the long term needs of the Ontario marketplace. These needs should drive the regulatory policies of the Board. Several of those key findings that are relevant at this time include[1]:

   - *Ontario's power sector gas use is also expected to continue growing, climbing to nearly one-third of total demand by 2020.*
   - *As power generation becomes a large part of natural gas demand, seasonal and daily use patterns will change. These changes could place stresses on Ontario's pipeline and storage infrastructure.*
   - *Unconventional gas resources, including shale gas, are expected to make up over 50 percent of total gas supply by 2020.*
   - *Shale gas is expected to be the principle source of growth in North American gas supplies.*
   - *As a result of the decline in Western Canadian production, an increasing share of Ontario's gas supplies is expected to be met by gas from the U.S., especially shale gas.*

[1] Appendix A pages 1 and 2

4. APPrO made further comments in its submissions regarding the market dynamics in Ontario that should further provide context for the Board to influence its policies and decisions. These include:[2]:

- *ICF indicates that Marcellus gas is not projected to be a major direct supply source for Ontario. Given the proximity of the Marcellus shale supplies to Ontario, the existing infrastructure that exists between Dawn and the Marcellus region, the relative ease in reversing flows in these systems, the variety of open seasons and contracts that have been signed for backhaul to Niagara, APPrO believes that there is greater potential to have Marcellus gas play a more significant role in Ontario than suggested by ICF.*

- *APPrO agrees with ICF that gas demand in Ontario from power generation will continue to grow. Gas-fired generation is an important part of the overall mix of generation in Ontario to ensure competitive and reliable electricity supplies, to meet peak electricity requirements, and to backstop less dispatchable sources of generation.*

- *The nature of this gas-fired power generation growth will require continued access to sufficient competitive gas supplies and access to the right mix of transportation distribution and balancing services.*

- *The structure of the new gas-fired generation power market in Ontario provides that gas be purchased at Dawn. Dawn therefore needs to remain a viable market hub to ensure liquidity and price transparency*.

5. In its submissions APPrO also specifically discussed the nature and scope of the non-utility generators (NUGs) in Ontario and their future need for access to competitively price natural gas supplies[3] and balancing services in order for them to help meet the long term power needs of the Province:

- *A portion of the existing gas-fired load from the non-utility generators ("NUG") is expected to convert from a base load operation to an operation that will result in a large share of their power becoming dispatchable. This will begin to occur as the respective power purchase agreements naturally come to term. These generators will also require additional transportation, distribution and balancing services to help manage the fuel requirements of this dispatchability.*

[2] Appendix A page 3
[3] Appendix A Page 3

6. In relation to the growth in power generation demand and the changing gas supply dynamics, APPrO also pointed out[4]:

> *The nature of this gas-fired power generation growth will require continued access to sufficient competitive gas supplies and access to the right mix of transportation distribution and balancing services.*

7. These submissions by APPrO were intended to demonstrate the ongoing need for the power generation market to access sufficient supplies of competitively priced gas supplies. Dawn is the most liquid market hub in Ontario and is the location of all of the natural gas storage and balancing services which is a critical supply chain element for dispatchable power generation. Ontario Power Authority (OPA) contracts provide linkage of payments to the natural gas commodity price at Dawn for all CES gas-fired generation plants the OPA has contracted, and any new NUG contracts will contain similar provisions[5]. Therefore access to competitive gas supplies and storage services between Dawn and markets in Northern and Eastern Ontario will require ongoing access to sufficient transportation services.

8. In its written submission, APPrO also expressed concerns that many generators were captive customers and were concerned about potential barriers in accessing competitive supplies[6]. The Board needs to ensure that it does not inadvertently create barriers for markets to access competitive supplies:

> *Many customers in Ontario are captive to existing systems and have limited direct access to these new supplies. A major challenge will be to ensure that captive customers do not bear the burden of both limited access to new supplies as well as being exposed to the higher cost of transportation systems that are experiencing declining throughput due to shifting supply and demand patterns.*

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[4] Appendix A page 3
[5] Application by TransCanada Pipelines for Approval of Restructuring and Mainline Final Tolls for 2012 and 2013 before National Energy Board, RH-3-2011: Evidence of Robert Cary on behalf of the Association of Power Producers of Ontario ("APPrO"); March 9, 2012; Robert Cary & Associates Inc. Page 3 of 6.

[6] Appendix A page 4

9. Access to sufficient quantities of competitively priced natural gas is not a one-time activity where parties are allowed to selectively contract for pipeline capacity. Rather, it is a set of rational regulatory policies and application of reasonable rate design principles that stand the test of time and promote both efficient infrastructure development on commercially reasonable terms and promote effective competition.

Union Gas and Gaz Metro Motion

10. Enbridge has filed a Leave to Construct facility application (EB-2012-0451) requesting approval to construct its GTA reinforcement Project that consists of 2 segments of pipe. Segment A is a 20.9 km long section of NPS 36 extra high pressure (XHP) pipeline extending from the newly proposed Bram West interconnection with TransCanada to its Albion Road station. Segment B is a proposed as a NPS 36 pipeline extending from Enbridge's Keele/CNR Station easterly and then southerly to Sheppard Avenue.[7]

11. Enbridge have entered into a MOU with TransCanada Pipelines whereby Enbridge will provide a transportation service to TransCanada on Segment A under a newly proposed transmission Rate 332[8]. No open season was conducted in order to allocate capacity to TransCanada[9].

12. The MOU between Enbridge and TransCanada contains a provision that limits the use of Segment A by Enbridge to serve its distribution pipeline and by TransCanada. The MOU explicitly prevents Enbridge from selling transmission services to any other person[10].

13. Union Gas and Gaz Metro entered a TransCanada Pipelines Open Season to access transportation capacity downstream of Parkway for the transportation of competitively priced natural gas from Dawn to their market regions in Northern Ontario and Quebec[11].

[7] Enbridge Application EB-2012-0451 Exhibit A Tab 2 Schedule 1
[8] Enbridge Application EB-2012-0451 Exhibit E Tab 1 Schedule 2
[9] EB-2012-0433/0451 EB-2013-0074 Transcript June 12, 2013 page 15
[10] Exhibit I.A1.EGD.CME.6 Attachment 3 page 3 clause 15, and Union/GMi's Supporting Documents Page 463

14. As a result of the recent NEB Decision in RH-3-2011, TransCanada has indicated that it did not receive the approval of its Board to construct the additional facilities that would be required to transport the Union and Gaz Metro volumes[12].

15. Union and Gas Metro wish to access the transmission system proposed by Enbridge as a result of TransCanada's inability to obtain the necessary authorizations to expand its system[13].

16. Union and GMi also indicated that they are prepared to develop the necessary pipeline facilities between the terminus of Enbridge's Segment A pipeline and TransCanada's Maple Compressor Station[14].

17. The Board has asked parties to make submissions on the threshold issue of the applicability of Segment A to the Board's Storage and Transportation Access Rule (STAR).

18. APPrO supports the Motion of Union and Gaz Metro.

19. Further, Ontario and other Eastern Canadian markets will continue to require ongoing access to transportation services from Dawn not only for access to competitively priced gas, but also to access critical balancing services. Developing the right regulatory policies is critical for this market access and the Ontario economy.

<u>Next Steps</u>

20. The Board has further asked parties to make submissions on what process the Board should follow in the event that either the Board finds that STAR does apply or it does not apply.

[11] Union Motion Paragraph 29
[12] Union Motion Paragraph 30 and I.A3.UGL.Staff.20 a)
[13] Union/GMi Motion
[14] EB-2012-0433/0451 EB-2013-0074 Transcript June 12, 2013 page 116

21. As described earlier APPrO strongly believes that the market requires ongoing access to competitively priced reliable natural gas supplies. This is fully consistent with the Board's objectives[15].

22. APPrO also believes that there must be rational expansion of the infrastructure to minimize the transportation costs paid by customers. This is also consistent with the Board's objectives[16]. Union has indicated it would be prepared to build between Parkway and Maple should they not get access to Segment A[17]. It would neither be rational nor in the public interest for Enbridge to construct a major pipeline on one side of a utility corridor and have Union come along at the same time and construct another similarly size pipeline on the other side of the road.

23. APPrO recognizes that the natural gas transportation industry is going through a fundamental change and is re-adjusting to the influx of significant quantities of new shale gas supplies. APPrO understands that the National Energy Board has recently made a change in the tolling structure of TransCanada Pipeline[18] that is causing TransCanada to adjust to the new environment in which it finds itself. Similarly utilities have a duty to their customers to secure the least cost practical source of supply. This creates a potential conflict among the utilities interests.

24. Regardless, there are still many unknowns in what might happen in the event that STAR was found to apply or not apply to Segment A.

25. The MOU contains a provisions indicating that all obligations under the MOU are subject to 'Laws'[19] which includes rules under the Board's jurisdiction. If the Board ruled that Segment A is subject to STAR, this would be in conflict with the provision in the MOU

[15] Ontario energy Board Act 1998 clause 2.1 and 2.2
[16] Ontario Energy Board Act 1998 clause 2.3
[17] EB-2012-0433/0451 EB-2013-0074 Transcript Technical Conference June 12, 2013 page 123
[18] NEB Decision RH-3-2011 March 2013
[19] Exhibit I.A1.EGD.CME.6 Attachment 3 clause 2.3 (b) (i)

that prevents access by any other party. It is unclear how this ruling would impact the MOU when such an apparent key term is found to be invalid.

26. If the Board found that STAR was to apply, and Union and Gaz Metro constructed the downstream facilities to Maple, both Union and Gaz Metro require TransCanada to transport the required volume of gas from Parkway to the Bram West interconnection with Segment A as well further downstream on their Mainline from Maple to their respective market areas. The Ontario Energy Board does not have jurisdiction to compel TransCanada to provide service downstream of Maple to Ontario markets. It is unknown at this time what TransCanada's reaction would be to their request for service.

27. TransCanada has also proposed to redeploy certain of its assets east of North Bay for its Energy East Oil service. It is unknown if TransCanada will retain this section of pipe for gas service or convert it to oil.

28. In the event that Segment A was required to be STAR compliant, and the Union and Gaz Metro volumes were to be transported on Segment A, it is not clear what changes in pipeline design would be required to accommodate these and potentially other volumes which may be being shipped on Segment A.

29. In the event that STAR was found not to apply, Union and Gaz Metro may want to construct their own facilities between Parkway and Maple. Developing pipeline infrastructure is becoming more difficult with time, and there are economies of scale in pipeline development. There may be commercial options that could be developed among the four utilities.

30. For these reasons, APPrO suggests that whether STAR applies or not, that the four utilities be provided 60 days or some other reasonable time period as the Board may determine, in which to develop a commercial solution to this issue and be required to report back to the Board if such a solution can be found.

31. If a commercial solution can be found among the utilities, it could be presented to the Board and utilities could apply for any respective approvals they may require to implement the solution. A commercial solution may be the most expedient way to frame a longer term resolution of this problem. APPrO recommends that if a commercial proposal is advanced by the utilities, that all parties be allowed to comment on the proposal as both system and non-system direct purchase customers will be impacted by the proposal though time. Allowing this period for commercial discussions on a solution does not prejudice the Board from exerting its authority on any matter subsequent to the period.

32. If a solution cannot be found among the four utilities, the nature of the commercial differences may help inform the Board as to the next steps that may be required and the steps that the Board could take under its jurisdiction. APPrO does recommend that the Board make a finding regarding the applicability of STAR first in order to clarify the regulatory environment for the parties.

33. As part of the 2010 Natural Gas Market Review, the Staff Report to the Board contained a number of recommendations[20]. One of these recommendations provided for:

> *Staff recommends that the Board should participate in regular gas market review conferences. If, as the Board continues to monitor developments in the North American natural gas supply market, conditions arise that, in the view of the Board, raise concern that the natural gas market has encountered a significant change, the Board may then use its discretion to begin a consultative process. However, in the absence of such conditions, staff recommends that a review period of three years is appropriate. In that period of time, a greater certainty in market trends and dynamics will likely be known. Accordingly, the staff recommends that the Board conduct its next regular review conference in 2013.*

34. APPrO supports this recommendation as the infrastructure issues between Parkway and Maple will not resolve all infrastructure issues within the Province. Given the fast pace of the changing gas supply dynamics, the Board should be informed on a regular basis of

[20] Appendix C

current upstream developments. APPrO recommends that the Board initiate another Natural Gas Market Review at early as practical.

APPENDIX A

APPrO Submission in EB-2010-0199

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APPrO
ASSOCIATION OF POWER PRODUCERS OF ONTARIO

Submissions of the Association of Power Producers of Ontario ("APPRO")

Natural Gas Market Review EB-2010-0199

November 2010

The Ontario Energy Board (the "Board") initiated a process on July 13, 2010, to assess the changing dynamics of the natural gas market in North America. In particular the Board wanted input from interested parties on the changes that were expected to occur and in particular to use this to help determine the need for regulatory changes in Ontario. As part of the overall Market Review, the Board retained ICF International to provide a 2010 Natural Gas Market Review as a basis for discussion. APPrO believes that the timing of the Market Review is timely given that the recent shale gas and other industry developments.

In addition to its power point submission and oral presentation, APPrO is pleased to provide these comments for consideration.

APPRO notes that the key findings[1] in the ICF report include:

1. *Demand for Natural Gas is Expected to Continue Growing, Led by Growth in the Power Sector*

    - *Total North American demand for natural gas is projected to continue growing, led by growth in the power sector.*
    - *Ontario's power sector gas use is also expected to continue growing, climbing to nearly one-third of total demand by 2020.*
    - *As power generation becomes a large part of natural gas demand, seasonal and daily use patterns will change. These changes could place stresses on Ontario's pipeline and storage infrastructure.*

2. *Supply Sources and Inter-regional Pipeline Flow Patterns are Changing*

[1] ICF International 2010 Natural Gas Market Review August 20, 2010, page 11

- *Unconventional gas resources, including shale gas, are expected to make up over 50 percent of total gas supply by 2020.*

- *Shale gas is expected to be the principle source of growth in North American gas supplies.*

- *Many shale resources, such as the Marcellus Shale, are located in geographically different regions than historic supplies. These shifts in supply sources will impact pipeline flows and the development of new pipeline capacity.*

- *Conventional gas production in Western Canada is expected to continue declining, and gas demand in Alberta for oil sands projects is expected to continue increasing. This is expected to cause TCPL's mainline flows to continue decreasing.*

- *While Western Canadian gas (delivered via TCPL) is expected to remain the largest single supply source for Ontario, it is expected to decline both in absolute terms and as a share of the total supply*

- *As a result of the decline in Western Canadian production, an increasing share of Ontario's gas supplies is expected to be met by gas from the U.S., especially shale gas.*

- *While Marcellus Shale production is not projected to be a major direct supply source for Ontario, it is projected to displace some exports of gas from Ontario to the Northeast U.S., allowing a greater share of gas transported on TCPL to remain in Ontario*.

3. *Natural Gas Prices are Projected to Increase*

   - *Projected demand growth, principally from growth in the power sector, will drive North American gas prices higher.*

   - *While gas prices are not expected to reach the very high levels seen in the mid- to late-2000s, average annual Henry Hub prices are projected to rebound to $5 to $6 per MMBtu.*

   - *Given the ample North American resource base, the projected gas prices are adequate support continued development of the supplies necessary to satisfy the projected demand growth.*

   - *While changes in supply and demand conditions are important in the determination of Ontario's gas prices, so are policies that impact TCPL's rate structure. The response to projected reductions in TCPL mainline flows is a critical issue for Ontario gas*

Except where noted below, APPrO generally agrees with ICF's summary of the market. APPrO also wishes to note that:

> References to gas flows within the ICF report are often annual averages and that the market must operate during peak periods. Understanding peak flows will also be important to assessing infrastructure requirements to serve the highly seasonal Ontario market.
>
> ICF indicates that Marcellus gas is not projected to be a major direct supply source for Ontario. Given the proximity of the Marcellus shale supplies to Ontario, the existing infrastructure that exists between Dawn and the Marcellus region, the relative ease in reversing flows in these systems, the variety of open seasons and contracts that have been signed for backhaul to Niagara, APPrO believes that there is greater potential to have Marcellus gas play a more significant role in Ontario than suggested by ICF
>
> Developments in supply, transportation or market conditions can change quickly which will affect relative pricing across the continent and hence demand for alternate gas supplies at Dawn.
>
> APPrO agrees with ICF that gas demand in Ontario from power generation will continue to grow. Gas-fired generation is an important part of the overall mix of generation in Ontario to ensure competitive and reliable electricity supplies, to meet peak electricity requirements, and to backstop less dispatchable sources of generation.
>
> The nature of this gas-fired power generation growth will require continued access to sufficient competitive gas supplies and access to the right mix of transportation distribution and balancing services.
>
> A portion of the existing gas-fired load from the non-utility generators ("NUG") is expected to convert from a base load operation to an operation that will result in a large share of their power becoming dispatchable. This will begin to occur as the respective power purchase agreements naturally come to term[2]. These generators will also require additional transportation, distribution and balancing services to help manage the fuel requirements of this dispatchability.
>
> The structure of the new gas-fired generation power market in Ontario provides that gas be purchased at Dawn. Dawn therefore needs to remain a viable market hub to ensure liquidity and price transparency.

In the August 20, 2010 Letter, the Board noted that it was looking for responses to several questions. APPrO submits these responses to those questions:

Question 1: What are the Opportunities for the Ontario Market Participants?

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[2] APPrO Presentation October 7/8 2010

APPrO believes that there will be continued reduction in west-east flows in favour of additional south-north flows. ICF also points out the likely decline in west-east gas flows. This decline is being driven by lower WCSB production, higher demand for gas in western Canada, higher west-east transportation charges from the WCSB, increasing shale supply availability from the southern US, as well as access to new Marcellus and other more local shale gas supplies.

Changes in flow and price patterns may trigger the need for relatively minor adjustments to infrastructure to facilitate gas flow movements. Existing pipeline operators are already proposing minor changes to facilitate two-way flow, service enhancements and other modifications to facilitate access to new shale supplies.

The combined impact of lower WCSB deliveries to the east results in higher a transportation toll which further exacerbates the competiveness of the WCSB. The challenge will be look for more creative ways to ensure captive customers are treated fairly and they do not shoulder the full burden of the costs of shifting supply basins.

Increased access to new shale gas supplies as well as shifting load patters for gas fired generators will increase the opportunities for the development of new storage and other balancing services.

The development of shale gas supplies in North America may be in its early stages. Recent technological changes have made a significant impact in the last few years in making these supplies commercially feasible. As technology continues to advance other non-conventional supplies in Eastern Canada, the Mid-west US and even Ontario may be commercially developable in the future. As these new supplies evolve, the market conditions and regulations should encourage access to these supply sources. Access to new supplies can help to maintain a competitive gas market, and increase the overall security of supply to the region.

Question 2: What are the Challenges for the Ontario gas market, consequences and issues?

Many customers in Ontario are captive to existing systems and have limited direct access to these new supplies. A major challenge will be to ensure that captive customers do not bear the burden of both limited access to new supplies as well as being exposed to the higher cost of transportation systems that are experiencing declining throughput due to shifting supply and demand patterns.

As ICF points out that between 2009 and 2020, Ontario demand is expected to grow by 0.8 bcfd (0.3 tcf annually)[3]. This will require expansions in both transportation systems between market consumptions points and market hubs, as well as expansions in storage and balancing services to accommodate this

[3] ICF International 2010 Natural Gas Market Review August 20, 2010, Exhibit ES 2

growth. As supply basins evolve this may naturally require additional infrastructure development between supply basins and market hubs.

Question 3: Should the OEB look at the impacts on existing pipeline facilities as a result of new supplies or pipelines developed to access new shale supplies, if so why, what are the implications and risks?

Given the capital intensive nature of the pipeline industry, there is a need for efficient and rational development of new facilities.

Ontario is currently served by a combination of intra-provincial pipelines, inter-provincial pipelines as well as international pipelines. These collectively transport the majority of the supply into Ontario as well as provide for transit volumes to downstream markets in Eastern Canada and the Northeast US. If the Board were to look at impacts on other pipelines, it is not clear which pipelines would be assessed for impact, how far upstream these impacts would be considered and how the impacts would be evaluated. The 'market' may be in a better position to assess the development of new supply basins, but risks must follow rewards. The current system of rate making creates distortions in the market place with rewards not necessarily following rewards. As previously noted there are many captive customers in Ontario that under the current transportation rate making regime are disproportionately bearing the risk of the shifting supply basins.

It was pointed out in this process that there is an urgent need to expand transportation infrastructure between Parkway and Maple[4]. Presumably this expansion would be matched with corresponding expansion between Dawn and Parkway. In principle, APPrO fully agrees that connectivity of the Ontario market to Dawn is critical. Many gas-fired power producers use this path to access Dawn gas supplies. Ongoing growth of this corridor may be necessary. It was also pointed out that a less efficient alternative currently exists[5] which results in gas being backhauled a long distance through the Mid-west US, to Manitoba and through Northern Ontario. This may be a much longer path but it also better utilizes existing infrastructure that is experienced declining throughput. Moreover these same captive customers that are incurring higher transportation costs may subsidize the new facility expansions if the incremental revenue from the new customers does not match the incremental costs from the expansion through the economic life of the project. APPrO believes that before new infrastructure is developed, that better utilization of existing transportation routes should be fully explored.

Better utilization of existing routes may require a fresh approach. It is recognized that the current backhaul methodology does result in gas being transported a significantly longer distance than the more direct Dawn-Maple corridor, but

[4] Union Gas Presentation October 7-8 2010 Slide 24
[5] Union Gas Presentation October 7-8 2010 Slide 20

increased utilization of existing systems may be appropriate. The more traditional rate making that is greatly influenced by cost allocations and distance, would suggest that this longer route would attract a much higher toll, than the newer more direct route. Current rate making practices may be an artificial barrier to more efficient use of existing systems. A new approach to tolling whereby existing underutilized systems have the flexibility to depart from traditional toll making and recognize that some incremental revenues that have a positive contribution to fixed costs may be better than completely forgoing all revenue and visiting the fixed costs on captive customers.

If however such rate making flexibility is not available to better utilize existing systems, or capacity is not available, then APPrO believes that Ontario needs continued access to sufficient competitive supplies and therefore new infrastructure development should be facilitated. In these circumstances, it may be appropriate to assess expansion policies to ensure that alternatives have been considered, that there is equity and balance in the sharing of risks and rewards of such expansions and to help ensure that unintended consequences to do occur.

APPrO recognizes that the Board may not have jurisdiction directly over other inter-provincial and international pipelines to help encourage new approaches to rate making. APPrO does however believe that there are ways that the Board can have influence to create increased efficiencies either directly in its expansion policies for transportation companies under its jurisdiction or through indirect mechanisms often available.

Question 4: Further action the Board might take on its own or in conjunction with others

APPrO believes that artificial barriers should be reduced wherever possible to help ensure that Ontario has sufficient access to competitive supplies. Examples could include:

- The approval of minor facility expansions that facilitate the access to new supply basins
- The current rate distortions noted earlier may be also an example of such a barrier which prevents better utilization of existing systems.
- Encouraging pipeline and storage companies to operate efficiently to help enable access to new supplies.
- Work with other regulators where appropriate to increase the efficiency of the overall pipeline network.

Comments on Certain Positions made By Other Stakeholders in Their October 7/8th Presentations

1. Pipeline Expansion Criteria (7 Consumer Groups)[6]

   Given the changing supply dynamics it may be time to revisit the criteria to expand pipeline infrastructure under the Board's jurisdiction. For example, if new assets are developed for international customers that have access to multiple supply options then the risks of such facility expansions may be different than those risks for other customers situated in Ontario. It may be appropriate to revisit the expansion criteria to ensure that the right balance exists between risks and rewards among all parties. APPrO does not see that this requirement is necessary for expansions for Ontario loads.

2. Re-examine the delivery point obligations (7 Consumer Groups)[7]

   Union requires that some infranchise customers have an obligated delivery point at Parkway. Given the changing flow dynamics, it may be time to revisit this requirement to assess if this is still appropriate in all circumstances given the underlying system requirements. This obligation may have been based at least in part on traditional supplies arriving from the WCSB and the nature of Union's system configuration. Given the changing flow dynamics for gas supply it may be appropriate to reevaluate both the need for such obligation as well as the delivery points if such obligated delivery is necessary. By way of example if it is appropriate to continue to have an obligated delivery, for a customer situated in Hamilton should such customer have the option to deliver to a Union receipt point off the TCPL system in Hamilton rather than the customer have to deliver to Parkway. A Hamilton delivery point may meet both the system requirements as well as provide the opportunity to access lower priced supplies from Marcellus via Niagara or other regional supplies rather than having to pay the additional costs of getting the gas to Parkway.

3. Expansion Parkway to Maple (Union)[8]

   APPrO has previously noted in this submission that there may be alternative ways to physical expansion to meet certain market needs. In the event that such other options are unavailable, then APPrO supports the rational development of pipeline infrastructure to ensure Ontario has continued access to competitive supplies.

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[6] Ontario Energy Board 2010 NATURAL GAS MARKET REVIEW EB-2010-0199 Prepared for Consumers Council of Canada, Canadian Manufacturers & Exporters, City of Kitchener, Federation of Rental-housing Providers of Ontario, London Property Management Association, School Energy Coalition, Vulnerable Energy Consumers Council, September 21, 2010

[7] Ontario Energy Board 2010 NATURAL GAS MARKET REVIEW EB-2010-0199 Prepared for Consumers Council of Canada, Canadian Manufacturers & Exporters, City of Kitchener, Federation of Rental-housing Providers of Ontario, London Property Management Association, School Energy Coalition, Vulnerable Energy Consumers Council, September 21, 2010

[8] Union Gas Presentation October 7-8 2010 Slide 24

APPENDIX B

July 13, 2010 Board Letter Announcing EB-2011-0199

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Ontario

VIA WEB POSTING

July 13, 2010

To: All Interested Stakeholders

Re: 2010 Natural Gas Market Review Announcement (EB-2010-0199)

As set out in the Ontario Energy Board's 2010 to 2013 Business Plan, which is available on the Board's website, the Board has decided to review and examine recent developments in North American natural gas supply markets to consider any potential implications for the Ontario natural gas market.

The purpose of this letter is to describe the Board process for the 2010 Natural Gas Market Review (the "Review"). This letter also sets out how interested stakeholders may participate in the Review, including matters in relation to cost awards.

Overview of the Review

An *overall objective* of this Review is to assess how natural gas markets in Ontario are responding or adapting to changing market conditions. The Board intends 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. The Review will look at impacts over the next 3-5 years including the potential impact on prices, services and transportation infrastructure utilization.

A *specific objective* of this initiative is to determine the need for regulatory changes, if necessary, in response to potential impacts identified.

Through this Review the Board will consider, for example, what might be the implications of increased shale gas production?

- Will it change the flow pattern of natural gas? If so, will this increase the need for new pipeline services and routes and reduce the attractiveness of others?
- Will it impact the price of natural gas in Ontario arising from incremental supply and a potential increase in pipeline and storage facilities?

- Are there any regulatory implications? Is there a need for greater inter-jurisdictional regulatory alignment?
- Are there risks that, if realized, will change the outlook for shale gas (e.g., potential environmental issues that may impact shale gas exploration and development)?

The Board's Approach

The Board will follow the process set out below for this Review.

An independent market report, prepared for Board staff by ICF Consulting Canada Inc., will be released in early August. This report will help focus discussions with interested stakeholders in this Review. The market report will include, among other matters:

- identification of emerging North American trends in natural gas supply and demand;
- impact analysis of shale and tight gas plays on trends in the Ontario market over a 3 to 5 year timeframe, on pricing and tolling, and on infrastructure investment; and
- identification of trends in regulation and policy development in other jurisdictions and a discussion of potential impacts to Ontario.

A stakeholder conference is expected to take place on October 4th and 5th, 2010 in the Combined West Hearing/ADR Room at the Board's offices. The stakeholder conference is intended to provide a forum for discussion of recent developments in North American natural gas supply markets and any potential implications for the Ontario natural gas market. Participants will be provided with an opportunity to make presentations during the stakeholder conference. The market report will be posted on the Board's website prior to the stakeholder conference. Further details on the stakeholder conference including a list of questions or topics for discussion to assist participants in preparing for the conference, will also be available in early August.

Following the stakeholder conference, the Board may provide for written comments, if needed. A Staff Report to the Board on the consultation will then be issued including recommendations. Subsequent to the issuance of the Staff Report, the Board would then decide what action, if any, to take which would then be addressed separately in appropriate regulatory processes.

Cost Awards

Cost awards will be available to eligible participants under section 30 of the *Ontario Energy Board Act, 1998* for their participation in this consultation. Costs awarded will be recovered from all rate-regulated natural gas distributors based on their respective distribution revenues.

Attachment A contains important information regarding cost awards for this consultation, including the process for making eligibility requests and objections. In order to facilitate a timely decision on cost eligibility, the deadlines for filing cost eligibility requests and objections will be strictly enforced.

Invitation to Participate and Filing Instructions

The Board encourages participation in this consultation process by all interested stakeholders. Those interested in participating should indicate their intent by letter addressed to the Board Secretary by **July 26, 2010**. The letter should include a statement as to whether the participant wishes to request cost eligibility. All requests for cost eligibility are to be accompanied by the information specified in Attachment A under the heading "Cost Award Eligibility".

All filings to the Board in relation to this consultation must quote file number **EB-2010-0199** and include your name, postal address and telephone number and, if available, e-mail address and fax number. Two (2) paper copies of each filing must be provided. The Board asks that participants make every effort to provide an electronic copy of their filing in searchable/unrestricted Adobe Acrobat (PDF) format and to submit all filings through the Board's web portal at www.errr.oeb.gov.on.ca. If you do not have a user ID, please visit the "e-filing services" webpage on the Board's website at www.oeb.gov.on.ca, and fill out a user ID password request. Additionally, interested stakeholders are asked to follow the document naming conventions and document submission standards outlined in the document entitled "RESS Document Preparation – A Quick Guide" also found on the "e-filing services" webpage. If the Board's web portal is not available, electronic copies of filings may be filed by e-mail at BoardSec@oeb.gov.on.ca. Those who do not have internet access should submit the electronic copy of their filing on CD or diskette.

Filings must be received by **4:45 pm** on the required date.

All materials related to this consultation will be posted on the "OEB Key Initiatives" portion of the Board's web site at www.oeb.gov.on.ca. The material will also be available for public inspection at the Board's office during normal business hours.

Questions relating to this consultation can be directed to Lisa Brickenden at 416-440-8113, or e-mail GasMarket@oeb.gov.on.ca. The Board's toll-free number is 1-888-632-6273, and the Market Operations Hotline is 416-440-7604.

Yours truly,

Original signed by

Kirsten Walli
Board Secretary

Attachment

APPENDIX C

Executive Summary of EB-2010-0199

Staff Report to the Board

Ontario Energy Board

EB-2010-0199

Staff Report to the Board

on the 2010 Natural Gas Market Review

January 31, 2011

Executive Summary

In 2010, the Ontario Energy Board ("Board" or "OEB") initiated a consultative process to assist the Board in reviewing and examining recent developments in North American natural gas supply markets to consider any potential implications for the Ontario natural gas market. The consultative process began in July 2010 and has culminated in this Staff Report to the Board. All materials in relation to this consultation are available on the Board's web site.

In general, all participants in the consultation commented that there appears to be a significant amount of uncertainty surrounding Marcellus shale production. Consequently, all participants generally expressed the view, and staff agrees, that the Board should take a cautious and incremental approach to any regulatory response given the uncertainties.

Board staff ("staff") has analyzed submissions, discussions at the consultation and the final written comments of participants and generally agrees that the Board should take a cautious and incremental approach to any regulatory response. In light of the information and analysis provided in consultation with stakeholders, staff recommends that the Board consider further exploring the following action.

1. The Board should carry out a review of the criteria in its E.B.O. 134 Report of the Board in the matter of the Ontario Energy Board Act, R.S.O. 1980, Chapter 332; and in the matter of a Review by the Ontario Energy Board of the Expansion of the Natural Gas System in Ontario("E.B.O. 134 Report"), dated June 1, 1987:

   - to determine whether criteria related to the public interest as discussed in that report could be refined; and

   - to examine the need for alignment with the Board's more recent Filing Guidelines for the Pre-Approval of Long-Term Natural Gas Supply and/or Upstream Transportation

Contracts ("LTC Filing Guidelines") to consider potential impacts on existing pipeline facilities in the market and the effects on Ontario customers.

Staff believes there is merit in aligning the E.B.O.134 Report criteria with the Board's LTC Filing Guidelines. The review and approval of applications from Ontario's gas utilities to build and maintain long-term capital assets serving Ontario should require no less rigour than the review and approval of long-term contracts supporting the build of long-term capital assets by others to serve the province. The objective of such a review would be to examine need for consistency to ensure fair treatment of economically prudent investment – whether made by the Ontario gas utilities or by companies not directly regulated by the Board – in natural gas infrastructure which is needed to support existing and potentially new services in the natural gas market.

2. On-going monitoring of developments in North American natural gas supply markets.

- Continued Outreach: In light of market uncertainties and concerns of participants identified in this report, staff will continue to monitor the natural gas market through regular interaction between staff and key market participants, other regulators, and Energy Ministry staff on gas matters.

- Tri-annual Gas Market Review Conferences: Staff recommends that the Board should participate in regular gas market review conferences. If, as the Board continues to monitor developments in the North American natural gas supply market, conditions arise that, in the view of the Board, raise concern that the natural gas market has encountered a significant change, the Board may then use its discretion to begin a consultative process. However, in the absence of such conditions, staff recommends that a review period of three years is appropriate. In that period of time, a greater certainty in market trends and dynamics will likely be known. Accordingly, the staff recommends that the Board conduct its next regular review conference in 2013.

The remainder of this Report documents the consultation and sets out staff's recommendations as summarized above.