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September 30, 2014

APPrO
ASSOCIATION OF POWER PRODUCERS OF ONTARIO

Ontario Energy Board
P.O. Box 2319
2200 Yonge St.
Toronto, ON, M4P 1E4
Attention: Kirsten Walli, Board Secretary

September 30th 2014

Dear Ms. Walli,

Re: EB-2014-0289 2014 Natural Gas Market Review – APPrO Comments

The Board issued a letter dated September 19th, 2014, related to the Board's intended scope for the 2014 Natural Gas Review (NG Review). The Board invited stakeholders to submit additional issues they believed ought to be addressed in this NG Review. APPrO is pleased to submit the following issues to be considered as part of the 2014 NG Review.

Summary of the Issues

1. Changes are required to the current utility services
    a. All dispatchable generators in Union South and Union North should be eligible for an unobligated delivery commitment to the utility.
    b. Services for 'Large and Medium Volume' rate classes in Union North need to reflect upcoming changes in generator operating characteristics as NUGs renegotiate their power contracts with the OPA to become dispatchable. In addition Union should introduce the billing contract demand concept (a bypass competitive rate structure) in Union North to avoid potential by-pass applications. This concept is already in place in Union South and Enbridge's franchise.
2. The sufficiency of the upstream gas supply infrastructure into Dawn over the next 5+ years should be evaluated to accommodate Ontario's growing natural gas market at Dawn.
3. Bottlenecks in infrastructure downstream of Dawn need to be eliminated to allow all generators in Northern and Eastern Ontario access to Dawn supply.

4. In the US, FERC is looking closely at changes to the Gas Day in consultation with NAESB and other interested parties. The potential implications of changes should also be considered in the consultation.

Further Elaboration on the Issues

1. Changes to utility services

The nature of the gas-fired power generation market in Ontario is changing and the services that the utilities (primarily Union South & North) offer, must adapt to reflect these changes. Many of the NUGs have been operating since the 90's and have been operating at high load factors. The Minister of Energy has directed the OPA to renegotiate the associated power purchase contracts for continuation of service when the original term expires. These new power purchase contracts will require these generators to become dispatchable which will significantly lower their respective load factors. This will in turn require them to purchase gas much differently than they have in the past. The utility service tariffs ought to be adapted to recognize these changes. More specifically:

a) Changes to Union South – Eliminate the Obligation to Deliver for Dispatchable Generators

Dispatchable generators only operate when the price of electricity is high enough to support the conversion of natural gas, at the then current price, into electrical energy. Unlike industrial customers that operate at high load factors, dispatchable generators often operate at load factors less than 40%. Dispatchable generators often do not run for many days at a time. They may even not run during times of the year that are the peak for the natural gas industry.

An obligated delivery requires customers to purchase and supply gas each day of the year on a firm basis year round, independent of their actual consumption needs on any day. Industrial customers and the original NUG generators generally consume a fairly consistent amount of gas each day throughout the year, and this service feature was designed to reflect this consumption profile. Dispatchable power generators on the other hand, operate intermittently so arranging for a consistent amount of gas to be delivered to the utility creates a huge financial liability to acquire this gas when they do not need it. Under the contracts that generators have with the OPA, generators only get compensated for the amount of gas that they consume in any day at the price of gas on such day. While Union does notionally inject gas, that is in excess of the generators actual need in the day, into the generators storage account, the gas can only be withdrawn for consumption over longer periods of time and it may be withdrawn when the price of gas is much lower. A good example of this is the weekend of March 1-2 2014. The price of gas was in excess of $78/GJ and dispatchable generators generally were not running. If they had an obligated delivery, they would have had to purchase gas at these prices and they would have subsequently used the gas over the following weeks and months after the price had fallen substantially. They would have had to absorb the difference between what they paid for gas under the obligated delivery arrangement and what they would have been able to recover when they actually generated power.

An unobligated delivery only requires that the customer deliver gas to the utility on the days that it is operating an amount that matches its daily consumption.

Under the NGEIR settlement agreement, the parties agreed that certain customers would be eligible for unobligated deliveries:

> ***Delivery Obligations***
> *a) West of Dawn: For new T1 or U7 customers and for existing customers with new firm incremental loads greater than 1,200,000 m3 per day, at the customer's option there will be no obligated DCQ requirement, subject to the facilities required to support the incremental load being economic*[1].

It should be noted that this unobligated delivery provision does not apply to existing generators nor does it apply to generators that do not meet the arbitrary volume threshold.

There are a number of existing generators that are west of Dawn that are either now dispatchable or will become dispatchable as the existing NUG contracts are renegotiated, or are less than the 1,200,000 m^3/d threshold. They should have access to an unobligated delivery provision.

b) Changes to Union North – Eliminate Obligation to Deliver, Introduce the Billing Contract Demand and Recognize That Changes in Operating Characteristics May Required Changes in Service Characteristics

Similar to customers in Union South, all dispatchable generators in Union North should have access to an unobligated delivery.

In addition, most NUG generators in Union North currently operate under a Rate 100 contract, which is a high volume, high load factor (>70%) service. As they become dispatchable, their load factor will drop to 40% or less. They will lose their eligibility for Rate 100 and under the current tariff provisions, will have to take service under Rate 20, which is about 20% more expensive than rate 100. Rate 20 is designed as a medium volume service. Similarly, any new dispatchable generator in Union North will also be forced into this lower volume higher cost service. Customers may also require additional access to balancing services to manage the variability in demand. Service characteristics ought to be revisited to avoid this potential rate increase for a generator to continue to obtain service.

Generators in Union North should also be eligible for a Billing Contract Demand service that was introduced in Union South and Enbridge. This feature was intended to be a bypass competitive rate. Without access to this service, there is an increased potential for these customers to apply for direct interconnections with TransCanada.

APPrO contends that the service attributes in Union North need to adapt to the changing requirements of the marketplace.

[1] EB-2005-0551 Settlement Agreement page 17

2. Sufficiency of the Natural Gas Infrastructure

There are a variety of market and supply factors that will influence Ontario's access to economically priced natural gas. The Board should help ensure that sufficient supplies are, or will be in place for Ontario as market demand for natural gas grows and under changing supply conditions. These factors include but are not limited to:

- The proposed Energy East project will transfer certain natural gas transmission facilities to crude oil service which could reduce the capacity to transport natural gas from Western Canada by up to 1.5 bcfd. This project could have more direct consequences in some regional areas of Ontario.
- The market for natural gas, especially the design day market, in Ontario continues to grow. In particular in the gas-fired power generation market, there are two new plants being developed; a 900 MW plant in Napanee and a 300 MW plant in Sarnia. These plants will require gas on peak. The commercial agreements that these parties enter into with the OPA will require these parties to purchase their gas at Dawn.
- Ontario's nuclear power generation fleet will undergo significant refurbishment commencing in several years. This will require natural gas-fired generators to supply an increase share of the power that would have otherwise have been supplied by these nuclear power plants. This will increase both the on peak day gas requirements as well as the total annual amount of natural gas required for power generation.
- US shale gas has had a significant impact on the pricing of natural gas as well as the North American flow patterns. In order for Ontario industry to be competitive, access to competitively priced US shale gas will be important. The desire to access natural gas source in Ontario at Dawn is growing in importance. Access to sufficient economically priced supplies at Dawn is required. No new pipelines have been built into Dawn since 2000, yet more and more parties want to source gas at Dawn. There several projects in the planning stages[2] to deliver shale gas into Dawn. It is not clear what the process nor timing is to have one or more of these projects proceed. This should be understood by the Board.

3. Bottlenecks Downstream of Dawn

As generators in Eastern and Northern Ontario become dispatchable the renegotiated power contracts they have with the OPA only recognizes the cost of gas at Dawn. Therefore they will need increased access to Dawn supplies to fuel their plants in the future. Currently there are bottlenecks in and around the GTA that may prevent further access to Dawn supplies. While this is currently in front of the NEB for adjudication, this may not come to a successful resolution. If so this could impact

[2] NEXUS and ET Rover

the security of supply of the power market. In the event this issue is not favourably resolved, then a made in Ontario solution may be required.

Sincerely,

David Butters
President & CEO