An Assessment of Dawn-Parkway Transportation Service Turn Back Risk

Ontario Energy Board

2014 Natural Gas Market Review (EB-2014-0289)

Stakeholder Conference

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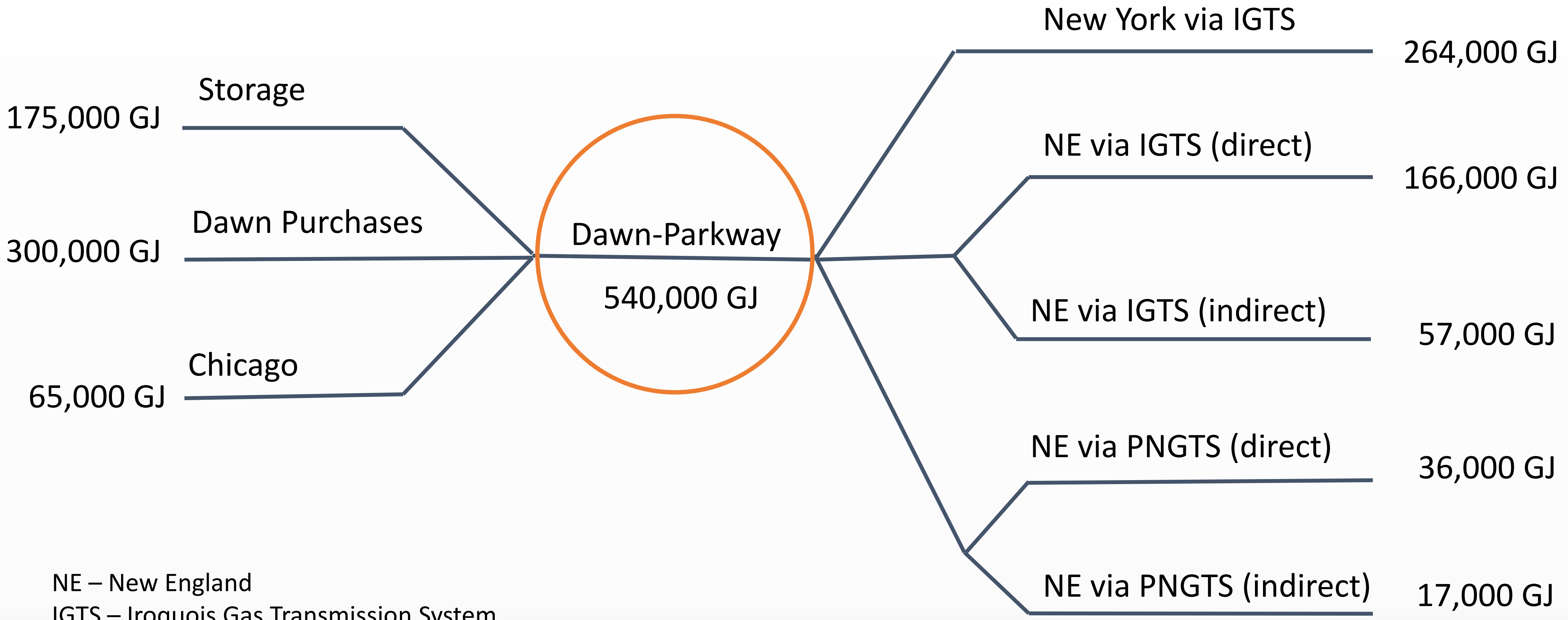
Dawn-Parkway Turn Back Risk

- The Union Gas Dawn-Parkway transmission system is used to provide both in-franchise distribution services and transportation services for ex-franchise customers.
- Currently, the costs of pipeline capacity turned back by ex-franchise customers can be shifted to in-franchise and ex-franchise customers that remain on the system, unless the capacity is remarketed or otherwise repurposed.
- Union Gas has identified Dawn-Parkway capacity held by Northeast U.S. LDCs as being at risk of turn back when existing contracts for transportation service expire.
- How should the Board address turn back risk in leave to construct proceedings?

OBJECTIVE: Assess Dawn-Parkway turn back risk from the perspective of the U.S. LDCs that will decide whether to renew or terminate contracts for Canadian transportation services.

Northeast U.S. LDC Dawn-Parkway Capacity



NE – New England
IGTS – Iroquois Gas Transmission System
PNGTS – Portland Natural Gas Transmission System

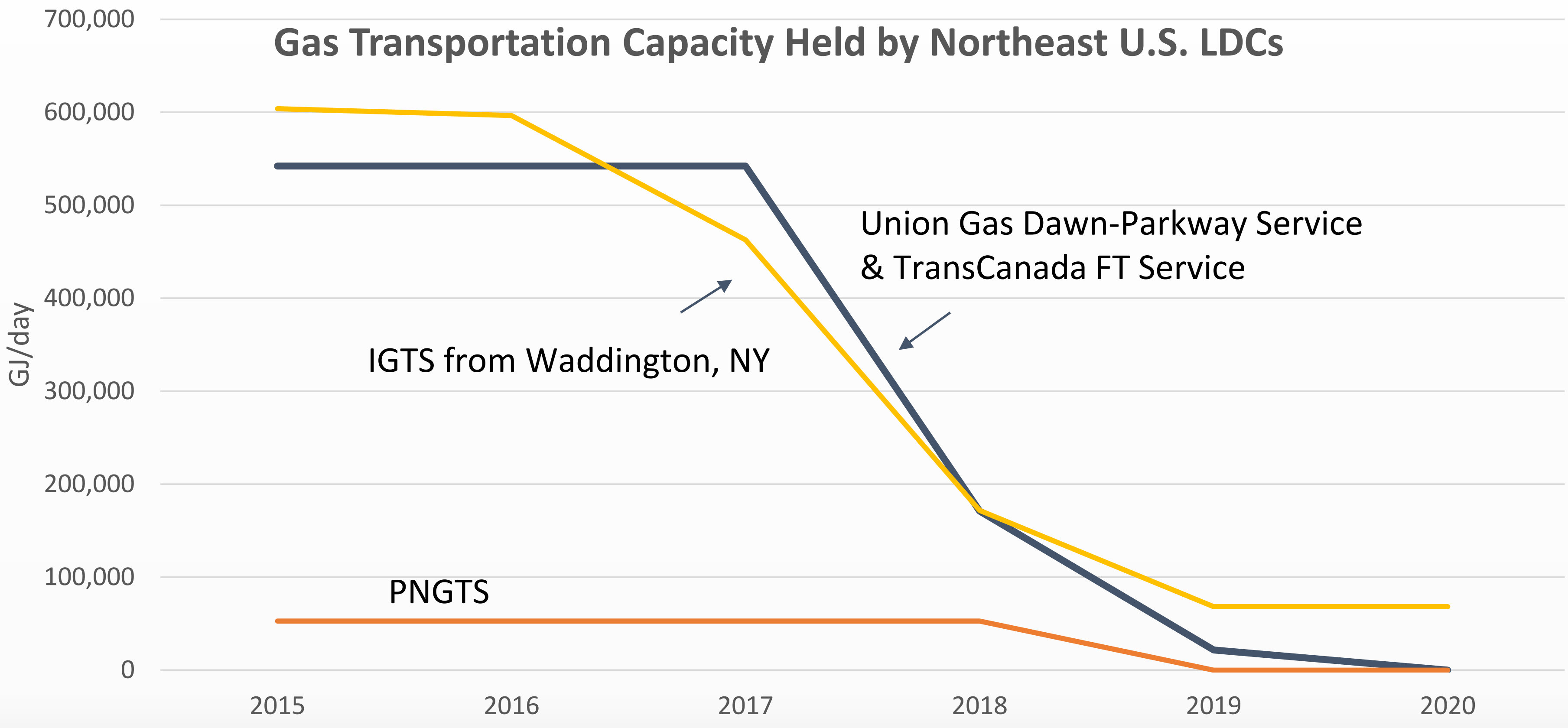
Why Would Northeast U.S. LDCs Retain Dawn-Parkway Capacity?

1. Long-term contracts for upstream or downstream services

2. Lack of alternatives

3. Delivered gas costs

Contract Expiration – Downstream Services



Alternatives

- IGTS shippers currently depend on gas delivered from Canada
  - IGTS receives up to 1,200 MMcf from TransCanada (TCPL) and up to 400 MMcf from Algonquin
- New projects to deliver Marcellus gas into IGTS create an alternative to TCPL

Project	Description	Capacity	Start Date
Constitution Pipeline	New pipeline from Pennsylvania to IGTS at Wright, NY	650 MMcf	2016
Dominion Transmission New Market Project	Pipeline expansion from Leidy, PA to IGTS at Canajoharie, NY	112 MMcf (82 MMcf into IGTS)	2016
Tennessee Gas Pipeline Northeast Energy Direct	New pipeline from Pennsylvania to Wright, NY (part of larger project)	600 – 1,000 MMcf	2018

- Other projects to deliver Marcellus gas into New York and New England will compete with gas delivered through IGTS and PNGTS

Delivered Gas Costs into IGTS

- Dawn appears to be competitive with Marcellus projects for winter (90-day) supply
    - Depends on the relative prices of natural gas at Dawn and Appalachia
    - Proposed TCPL Settlement tolls narrow or eliminate the Dawn transportation cost advantage
- Asset management arrangements lower the cost of holding year-around transportation capacity to meet winter period requirements

Delivered Cost of Gas into IGTS (US$/MMBtu)

Transportation Path	Pipeline Fixed Cost	Basis vs. NYMEX	Cost at 100% Load Factor	Cost at 25% Load Factor
Dawn-Iroquois (current rates)	0.39	+ 0.25	+ 0.64	+ 1.81
Dawn-Iroquois (projected rates)	0.61	+ 0.25	+ 0.86	+ 2.69
Constitution Pipeline	0.65	- 0.25	+ 0.40	+ 2.35
Dominion New Market	0.74	- 0.25	+ 0.49	+ 2.71

Assessment

- Nearly all of the U.S. LDC contracts for Dawn-Parkway service, and most long-term contracts for upstream and downstream services, will expire before 2019
- If Constitution Pipeline is completed in 2016, U.S. LDCs could begin to turn back Dawn-Parkway capacity as early as 2018
- Additional pipeline expansion from the Marcellus to Wright, NY (e.g. Northeast Energy Direct) would make further turn back in 2019 and 2020 more likely
- Eliminating the Dawn-Maple bottleneck would lower the market value of TCPL FT service from Parkway, and increase the cost of retaining capacity on the Dawn-Iroquois path
- Some New England LDCs may retain Dawn-Parkway service to access Michigan and Dawn storage

DAWN-PARKWAY CAPACITY AT LOW RISK OF TURN BACK:	150,000 – 250,000 GJ
DAWN-PARKWAY CAPACITY AT MEDIUM TO HIGH RISK:	300,000 – 400,000 GJ