January 16, 2014

Kirsten Walli
Board Secretary
Ontario Energy Board
POBox 2319
2300 Yonge Street, 27th Floor
Toronto, Ontario M4P 1E4

Re: AMPCO comments to Ontario Energy Board Natural Gas Market Review
Board File No. EB-2014-0289

Dear Ms Walli:

We appreciate the opportunity to submit these comments to the Board as part of its Natural Gas Market Review.

The job of an industrial energy manager is to coordinate the supply of necessary energy to operate the facility, and to budget and manage the cost of that energy on a going forward basis, to ensure the facility runs profitably, and to maximize the return on the capital invested in the plant.

AMPCO members not only are major power consumers, they are major gas consumers, and in many cases they are major users of solid and liquid fuels in their processes and for transport. These facilities depend critically on a reliable supply of adequate energy of consistent quality at a price they can afford to operate properly, to attract production from competing plants elsewhere, and to attract capital to renew investment in the assets. From a business perspective, the distinctions and arbitrary divisions between the electricity and natural gas markets mostly are meaningless. What counts is reliable and safe operation of the facility, and a delivered price for energy overall that allows the plant to operate over time in a way that is profitable.

As the Board knows, AMPCO focuses its efforts on electricity issues. We are a reliable customer-interest intervenor in hearings where our members' interests are at stake. However, the electricity system is only part of the larger and complex energy system on which Ontario's economy and way of life depends.

Our view has been that the current electricity infrastructure generally is adequate to meet the anticipated needs of consumers for the foreseeable future. Any supply shortages would be seen in advance and that time would allow us to adapt to changes in plans. The IESO has been saying that supply is adequate and reliable, and by and large we have agreed with this assessment.

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However, the events of the past winter have caused us to doubt that conclusion. It was a cold winter and prices were high, as naturally should be expected. We did not anticipate that a 1/50 winter would take Ontario's natural gas supply infrastructure to its limits, and the unforeseen consequences of regulatory processes and commercial arrangements by the utilities would leave Ontario as vulnerable as we now believe it to be. High prices are one thing, but true scarcity pricing, during times when we rely on the infrastructure the most, is cause for alarm.

Not only has the natural gas and electricity infrastructure become increasingly interconnected, but there has been a seismic shift in the supply context for natural gas. The number and capacity of gas pipelines has increased steadily over the decades, and, as a result of technological advances, the estimated available amount of gas in the ground has increased significantly compared to prior estimates.

The importance and value of the networked infrastructure in the region surrounding Ontario, in the US Midwest, in the Pennsylvania-New Jersey-Maryland area, New York, New England and Quebec, has in recent years become clear with rapid development of the massive energy resource contained in the layers of shale underneath. The transnational pipeline from the conventional resources in the Western Canadian Sedimentary Basin is less relevant in this context than it has been in its history, and the challenging economics of the TransCanada Main Line are further evidence. There is oil and natural gas in abundance to the south of Ontario.

Events of the past winter exposed the potential risks and uncertainties facing Ontario from an energy supply perspective. Ontario relies on natural gas to heat homes and workplaces. We rely on it as well as a basic input to the manufacturing industry, including directly as feedstock. Its supply infrastructure is an integrated part of the economy.

The totality of the pipeline infrastructure serving Ontario—including the Main Line and all the pipelines entering Ontario from the United States—likely is sufficient to serve our needs. However, since the firm toll to ship gas from Alberta to Ontario is set higher than the basis differential between gas in Alberta and gas available from elsewhere, the cheaper option for now and the foreseeable future is for Ontario to source its gas in the US. This will increase shipments of gas from the US, via the extensive pipeline system that interconnects Ontario with the Eastern Seaboard, the Midwest, out to the Rockies, and extending south to the Gulf of Mexico. It is a big market and Ontario is only one destination for fuel that enters the system.

AMPCO has analyzed a range of long term energy plan scenarios for Ontario. The uncertainty associated with the schedule and cost of proposed nuclear refurbishments is a major risk factor for the cost of power going forward. The pace and schedule of nuclear unit outages will affect Ontario's dependence on gas-fired generation to replace that power. The uncertainty and range of potential nuclear outcomes creates follow-on uncertainties in terms of the necessary capacity of Ontario's gas infrastructure to support higher natural gas consumption during the refurbishment period. If Ontario is to import more natural gas to meet electricity system needs, we want to ensure that the necessary infrastructure is in place to minimize its delivered cost, if necessary by expanding pipeline capacity in Ontario to remove any bottle-necks on imports of low-priced gas from the United States.

We have the following specific comments and recommendations:

1. Our view is that the downstream effects in the electricity market of discretionary pricing and economic withholding of interruptible gas transmission services are an unintended consequence of the decision by the National Energy Board to order these rates. Our further view is that a comprehensive assessment of the benefits and costs of the NEB's recent decisions would show a significant loss of wealth by consumers in Ontario. The reality is that the Main Line assets overall are less useful and valuable than before, and are likely to be even less so in future. Rather than put that liability on the pipeline owner, however, the costs of sustaining this extra book value has been put upon consumers in Ontario. We are not challenging the NEB; the costs of doing so are prohibitive. We are suggesting, however, that the Ontario Energy Board's oversight of market manipulation in the electricity sector must be considered to include the potential for market manipulation in fuel markets upstream of the power sector. Ontarians cannot be assured of the adequacy of the electricity system if we cannot be assured of the adequacy of the fuel required to run that system. Market manipulation in upstream fuel markets should be of as much concern to the Board as market manipulation is considered to be in the power market itself.

2. We would support greater transparency in the gas market. We have become accustomed to a high level of transparency in the operations of the electricity system. The IESO publishes detailed demand, production and price data for the electricity system, allowing for systematic and comprehensive analysis. By comparison, very little data is published for the gas market. For example, there is no public record of volumes transacted and price for natural gas at the Dawn Hub, even though that price index is the reference fuel price index for most of the gas-fired generation in Ontario. As well, there is no systematic reporting of intra-Ontario gas flows, receipts and deliveries by delivery point, as would be necessary to understand and analyze the historical cost of delivered gas in the Province. We cannot say with any degree of accuracy, and neither we think can the Board, the total price paid by Ontario consumers for natural gas last winter. The data simply is not available to do such an analysis. We see this as a big problem. By way of comparison, we have calculated the net difference in electricity production costs last winter compared to the winter of 2012/2013 to be $649 million (based on total production costs in the period November through March).

3. Unlike the power market, the oversight of which in Ontario is mostly self-contained, the natural gas infrastructure is regulated by a combination of federal and provincial agencies. While we understand the constitutional framework that gives rise to this arrangement, we see nothing in those rules that would require the two agencies to work separately to assess and plan for the future adequacy, reliability, and economic viability of the combined energy infrastructure that supplies the Province. Given Ontario's dependency on imports and the upstream resources and infrastructure to supply those imports, the challenge for the Ontario Energy Board is to engage with the national regulator to ensure to the extent possible that that infrastructure is adequate to meet demands, that the supply is reliable, and that Ontario consumers pay a fair and reasonable price.

We commend forums like the Natural Gas Review as an opportunity to narrow the divide between the historically separate spheres of electricity and natural gas, and to facilitate a broader understanding of the physical and economic interdependence of the combined infrastructure.

We support the Board's proposal to repeat the Natural Gas Review on an annual basis in part because it will provide a forum for the Board and stakeholders over time to consider the role of the Board in overseeing planning processes for meeting future electricity and natural gas demand.

We look forward to the Board's final report at the conclusion of its Review.

Sincerely,

Adam White
President