Aiken & Associates
578 McNaughton Ave. West
Chatham, Ontario, N7L 4J6
Phone: (519) 351-8624
E-mail: randy.aiken@sympatico.ca

January 16, 2015

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
Suite 2700
Toronto, Ontario, M4P 1E4

Dear Ms. Walli:

Re: EB-2014-0289 - 2014 Natural Gas Market Review - Written Comments of the London Property Management Association

I. Introduction

The Ontario Energy Board ("Board") initiated a consultation process for the 2014 Natural Gas Market Review ("Review") in a letter dated September 19, 2014.

The Review, as indicated by the Board, was to examine recent developments in the North American natural gas market to better understand any potential implications for Ontario's natural gas sector. In particular, the Board indicated that any insights gained through the Review would assist the Board to identify the potential need for modifications to the Board's regulatory framework and/or policies and in the review of utility applications that affect the rates and the quality of service to customers.

The scope of the review included an examination of the underlying drivers of the Quarterly Rate Adjustment Mechanism ("QRAM") highlighting the cost and risk trade-offs of different gas supply planning parameters, a review of the winter of 2013/2014 natural gas market conditions and prices in Ontario in order to explain what happened and why, a review of forecast natural gas demand, supply and prices to 2020, and any regulatory implications that arise from the Review and any other key issues that should be considered by the Board.

This letter provides the written comments of the London Property Management Association ("LPMA").

Two paper copies have been provided to the Board and an electronic version has been filed through the Board's web portal at www.errr.oeb.gov.on.ca.

II. Comments on Proposed Issues

LPMA appreciates the opportunity to participate in this consultation and has provided its comments based on the proposed issues listed provided in the Board's December 23, 2014 letter.

1. How can the Board's assessment of distributor natural gas supply plans be enhanced to ensure a better understanding of the various elements of the plan, the potential risks associated with those elements, and the applicant's proposals for methods of managing those risks?

LPMA is not convinced that that the Board's assessment of distributor natural gas supply plans needs to be enhanced. If the Board believes that its assessment is, or has been deficient, it should identify this deficiency to the distributors and intervenors so it can be addressed by the parties.

LPMA believes that the best way to understand the various elements of a gas supply plan, the potential risks associated with those elements and the applicant's proposals for methods of managing those risks is to put the gas supply plan through a number of stress tests. These tests, also known as scenario analyses, would be used to see how a plan performs under scenarios that have a low probability of occurring, but which could cause the plan to fail or result in undesirable consequences.

The Board may wish to consult with the distributors and intervenors to come up with a number of stress tests that could be applied to each of the distributors. Since the gas supply plans are different, and the assets available to each distributor are different, it would be expected that the stress test scenarios would also likely be different for each of the distributors.

These stress tests would be a combination of a number of things that could occur, including, but not limited to extreme weather fluctuations, demand fluctuations due to economic factors, pipeline failures, storage failures, supply basin production curtailments, and so on.

2. How can the Board better ensure that it's assessment of natural gas applications is informed by up to date information on relevant developments in the broader North American natural gas sector?

LPMA believes that the Board should proactively monitor developments in the broader North American natural gas sector, if it is not already doing so, rather than relying solely on the distributors to provide this type of information.

In order to be an effective regulator and to ensure that its assessment of natural gas applications is informed, the Board should not rely solely on the proponent of the application for this type of information.

That means that the Board should take steps to keep up to date on developments on an independent basis if it believes it is deficient in this area. This may require the Board to establish more contact with other regulators across North America, hiring an independent third party to monitor developments and report to the Board and/or having Staff undertake this function.

In addition, LPMA would recommend a bi-annual review of natural gas markets that would involve all stakeholders.

Finally, any and all information received by the Board should be shared with all interested parties.

3. What is the appropriate role of the Board in relation to the efficient operation of the natural gas market in the public interest, for example, regarding the sufficiency of Ontario access to northeastern U.S. gas supplies?

The appropriate role of the Board is to ensure that distributors and end users in Ontario have access to gas supplies that economically feasible. This would include, but not be limited to access to northeastern U.S. gas supplies.

This does not necessarily mean that that the Ontario distributors should be investing in projects to increase access to gas supplies. In order for the markets to operate efficiently, the market needs to determine the most effective way to connect those markets.

The appropriate role of the Board in relation to the efficient operation of the natural gas market in the public interest is to ensure that there are no barriers in Ontario to obtaining access to gas supplies or to moving such gas through Ontario or to and from storage.

4. In what ways, if any, do the Board’s public interest mandate and/or views in relation to the overarching outcome(s) for Ontario’s natural gas market require clarification?

LPMA does not believe that any clarification is required.

5. What are the merits and disadvantages of replacing the Empress (AECO – C) price with the Dawn Hub price as the reference price for the commodity used for regulatory purposes?

LPMA has always believed that a reference price for the commodity used for regulatory purposes should not be based on a single point. This is only appropriate if, or when, the vast majority of gas is purchased at that single point and that the composition of the gas purchases is relatively stable.

Neither is the case anymore. Union and Enbridge both purchase gas at numerous points. Empress and Dawn are only two such purchase points. Both purchase, or have the ability to purchase gas for Niagara delivery, Parkway delivery or at the Chicago Hub. Even a small utility such as NRG purchases gas at multiple delivery points (Empress, Parkway and Dawn).

Moreover, as the Board is aware, the natural gas market has changed considerably over the past several years, with less purchased in western Canada and more purchases made from eastern North America. Indeed, that is one the drivers of the current natural gas market review.

LPMA further notes that the differentials between market hubs are also in flux. Some differentials which have historically been positive, have turned negative. This reflects changes in supply basins and underscores the problems associated trying to use just one price as the reference prices for the commodity used for regulatory purposes.

LPMA believes that each of the distributors should calculate a reference price based on reference prices for each point at which they forecast they will purchase gas, along with the associated transportation (if any) required to deliver that gas to Ontario. These prices would then be weighted based on the forecasted purchase volumes at each of these points.

For example, a distributor may purchase 30% of its gas at Empress and transport it to Ontario, 20% at Chicago and transport it to Ontario, 25% at Dawn, 15% at Parkway and 10% at Niagara. The reference price used for regulatory purposes shown reflect these weightings applied to price forecasts for each of these purchases.

Since the price differentials between these purchase points are likely to change in both the short term and in the long term, trying to use a reference price for only one of these points does not make sense. Moreover, as this natural gas market review has indicated, the composition of the gas purchases are in a period of transition. The reference price for regulatory purposes needs to be able to reflect this change.

Such a process will result in different reference prices for each of the three distributors. This is to be expected since the gas supply plan is unique to each utility due to, at least in part, the different access each utility has to upstream transportation and storage.

6. Are there mechanisms for enhanced inter-regulatory agency communication and agenda coordination that would facilitate the consideration of the potential broader impacts of specific regulatory applications?

There is a potential problem with agenda coordination between regulatory agencies. A high priority application in one jurisdiction may not be a high priority application in another jurisdiction.

There may also be issues around timelines that may differ by regulatory agency, not to mention the issue of when applications are filed by different parties in different jurisdictions.

Having said that, LPMA believes that the most effective mechanism for enhanced inter-regulatory agency communication is to pick up the phone and discuss agenda coordination with the appropriate agency or agencies.

The Board always reminds intervenors that it expects groups representing the same interests or class of persons to make every effort to communicate and co-ordinate their participation in a proceeding or process. Intervenors and ratepayers expect the same of the regulatory agencies and would be surprised, and disappointed, if this communication and co-ordination was not already taking place.

7. Regarding regulatory aspects of the natural gas and electricity markets interface, what process should the Board use to
• keep abreast of developments affecting both markets (e.g. role and regulation of natural gas storage); and
• facilitate better cross-sector communication and coordination (e.g. the impact of GDAR on potential information sharing between electricity and natural gas stakeholders)?

LPMA is not sure what the Board means by the regulation of natural gas storage, because it has found that there is a competitive market for natural gas storage in Ontario.

LPMA has not seen any need for the Board to get involved in cross-sector communication and coordination between the electricity and natural gas stakeholders. These parties are already directly engaged with one another.

The Board's role is to ensure there are no barriers in the natural gas and electricity markets interface. If and when any barriers are brought to the attention of the Board, the Board should deal with them.

8. In what ways should access to information on Ontario primary and secondary natural gas markets be made more transparent for buyers and sellers?

LPMA believes the Board has to further define what it means by access to information and transparency for buyers and sellers. In particular, what information needs to be more accessible and how would that access make the primary and secondary natural gas markets more transparent?

9. What, if any, are the merits of a stakeholder discussion on how to facilitate broad energy sector optimization (e.g. storage; multi-source district heating/cooling; combined heat and power; CDM/DSM) and if so, in what context should such a discussion take place?

LPMA submits that the Board should not get involved in any stakeholder discussion on how to facility broad energy sector optimization when the majority of the market operates in a competitive environment. Regulatory involvement in the competitive sector only adds unnecessary costs to the energy sector.

Sincerely,

Randy Aiken

Randy Aiken
Aiken & Associates
Consultant to LPMA