

# Ontario Energy Board

**IN THE MATTER OF** the *Ontario Energy Board Act, 1998*,  
S.O. 1998, c. 15, Sch. B, as amended;

**AND IN THE MATTER OF** a consultation by the Board  
with respect to an Ontario Natural Gas Market Review

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## Observations/Comments

**Energy Probe Research Foundation**

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**January 16, 2015**

## **Stakeholder Conference**

Energy Probe's view is that the December 2, 2014 Conference hosted by the Board provided an excellent forum for exchange of information among Stakeholders.

It should become a regular item on the Board's Agenda, particularly as the natural gas supply/transportation landscape continues to change.

## **Context/Perspective for Energy Probe Observations/Comments**

As a consumer-oriented organization with a focus on Energy Policy, Energy Probe is concerned that the decisions that are made by the OEB in regard to Natural Gas Policy are well researched and are the result of informed debate among suppliers, gas transmission and distribution companies and Ontario consumer representatives.

## **Major Drivers for Natural Gas Market Growth**

As the Navigant Report clearly indicates, the Natural Gas Supply Landscape has changed dramatically over the last 5 years and will continue to change over the next 5 years.

Structural changes in the Ontario Gas Market are one of the most significant developments; in particular, the forecast dramatic increase in gas-fired electricity generation.

IESO/OPA in its NGMR presentation, states the gas fired generation incremental need as "3,000 MW, give or take, in 2019". This seems low given the generation outlook:

- Pickering retirement (3,000 MW);

- Refurbishment outages at Bruce and Darlington (2,000 MW at a time);

- Potential retirement of Non-Utility Generation as existing contracts expire (1,000 MW);

- Moderate growth in resource requirement due to demand growth (1,000 – 2,000 MW).

Navigant (Table 4) also forecasts a four times increase of Gas fired Generation in the early 2020s. As the experience in Oakville demonstrates, there are significant environmental and political challenges associated with siting an additional 3000 MW+ of gas fired generation in Ontario.

### **Security of Supply and Diversity**

Is the “rush” to shift supply to US shale gas and build the associated transportation infrastructure appropriate? Should a more balanced approach maintain more WCSB supply and transportation capacity and importantly, be positioned to take advantage of potential new Western shale gas developments?

Eastern LDCs appear to still have concerns with limited winter peak delivery capacity on the TCPL Mainline, if Energy East proceeds.

TCPL will probably continue to reiterate its position that there *is sufficient capacity*. Accordingly, if there are residual concerns, then the Eastern LDCs should be willing to contract for more Long Haul transportation.

### **Gas Supply Planning**

EGD sets out its criteria in its presentation:

- Reliability – Firm, discretionary, curtailment, delivered
- Flexibility – Term, renewal rights, other service attributes
- Diversity – Path, access to hubs/basins, access to storage
- Landed Cost - Including toll, fuel, commodity costs

In examining the shift from WCSB supply to US shale gas there are three primary considerations that the OEB should examine:

WCSB AECO Price vs Dawn Price;

TCPL Long Haul Tolls vs Union/TCPL Short Haul Tolls; and,

Diversity.

In its presentation prepared for Union Gas, ICF projects differentials between Henry Hub and AECO and Dawn to decrease over the next 10 years. Henry Hub-Dawn differential to reduce from 34c/MMBtu to 25c/MMBtu and AECO-Dawn from about \$1.00/MMBtu to 75c/MMBtu

With the forecast major reduction in WCSB supply delivered on Long Haul Transportation, It may be appropriate for the OEB to shift to Dawn reference prices for QRAM purposes, but during the transition the Henry Hub and AECO prices and forecasts should be maintained in parallel.

### **Ontario Infrastructure Development**

One result of the supply base change is major investment in incremental pipeline capacity amounting to ~1500Gj/day in Ontario by Union, EGD and TCPL. The associated regulatory proceedings will increase relative to prior 2014 history.

#### Union Dawn-Parkway

##### 2015 Approved

- Capital - \$423 million
- Demand – 0.72 PJ/d
- Conditional OEB approval January 2014
- Compressor construction underway

##### 2016 Application

- Capital - \$416 million
- Demand – 0.45 PJ/d
- Fully contracted
- OEB LTC filing September 2014

2017/2018 TBD

- Open season early 2015
- OEB LTC filing September 2015
- Project scope TBD

2018-2020 TBD

- Industrial Growth
- Connecting New Communities
- LNG/CNG Development
- Shift of Additional Demand to Dawn
- Market Growth – Housing/Businesses

Enbridge GTA Projects 2015-2017

Capital \$1.1Billion

Capacity 800TJ/day

Approved by OEB -contingent on TCPL Settlement and Kings North

TCPL

Niagara/Chippawa

Incremental 200TJ/day Hamilton Line EGD

Additional 240TJ/day GMI

Kings North

880TJ/day Incremental Capacity

The tariffs for Short Haul Transportation- Niagara and Dawn-Parkway will increase. The costs will be offset by reduction in TCPL Long Haul Tariffs.

## **Stakeholder Engagement**

The changing Landscape will require rethinking some of the current supply/delivery requirements. As Enbridge Indicates in its presentation:

*We are in a period of significant change. Co-ordination with all stakeholders is critical. The Board will need to be prepared to approve outcomes from consultations and longer term commitments required to facilitate market transition.*

The Board has already reviewed and approved two Settlement Proposals  
Union Parkway Delivery Obligation  
Enbridge Dawn Access

In both cases the change process resulted from the LDCs meetings with gas brokers and Large Industrial Customers.

Although representatives of small volume System Gas customers were included, however given the technical nature of the content, they had to rely on the LDCs to protect their interests.

This dynamic - pressure from brokers and large direct purchase customers to further their economic interests - is an important factor for the Board to consider going forward.

**Ontario Energy Board  
2014 Natural Gas Market Review EB-2014-0289  
PROPOSED ISSUES LIST**

<b>Issue</b>	<b>Comments/Observations</b>
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?	<b>During the transition from Western to Eastern gas supply basins. Technical Conferences on the Union and EGD Gas Supply Plans should occur annually.</b>
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?	<b>Continue Annual Forums with Expert Input/Reports</b>
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?	<b>Caution - commercial/economic considerations are driving supply change process and a more balanced perspective is required. The Board is the best arbiter of the public interest and should retain independent advice rather than rely on LDCs.</b>
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?	<b>Strategic considerations require the Board independently consider and reflect Provincial Energy policy rather just continue to react to Applications</b>
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?	<b>Given the forecasts of gas supply replacing HH and AECO by Dawn for QRAM purposes is reasonable. However during a period of transition HH and AECO forecasts should also be filed and compared to Dawn forecasts.</b>
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?	<b>Coordination of Applications and Decisions affecting Ontario by OEB and NEB is Critical. Primary onus on Applicants secondary by regulators. Conditional Approvals by either regulator are not in public interest</b>
7. Regarding regulatory aspects of the natural gas and electricity markets interface, what process should the Board use to <ul style="list-style-type: none"> <li>• keep abreast of developments affecting both markets (e.g. role and regulation of natural gas storage); and</li> <li>• facilitate better cross-sector communication and coordination (e.g. the impact of GDAR on potential information sharing between electricity</li> </ul>	<b>OEB should include more focus on electricity sector and gas fired generation forecasts/outlook in the next NGMR Forum. The IESO should play a larger role in providing information on gas/electricity interface issues</b>

and natural gas stakeholders)?	
8. In what ways should access to information on Ontario primary and secondary natural gas markets be made more transparent for buyers and sellers?	<b>Brokers and Large customers (and consultants) maintain close contact with market. No enhancements are suggested</b>
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?	<b>The Context/framework would be the Long Term Energy Plan 2013. It appears that the Minister has tasked various Agencies with implementation of components of the Plan. An inter-agency stakeholder forum on inter-related issues could be useful.</b>

**Respectfully Submitted at Toronto, January 16, 2014.**

**Roger Higgin SPA Inc.**

**Consultant to Energy Probe Research Foundation**