EB-2014-0289

2014 Natural Gas Market Review

Final Submissions

Of

The Association of Power Producers of Ontario (APPrO)

January 16, 2015

APPrO would first like to commend the Board for conducting the Natural Gas Market Review Process (NGMR). The NGMR was not only an opportunity for APPrO to share its insights and comments with the Board and other parties but it also presented a valuable opportunity for APPrO to be informed about other stakeholders' views. The process was well planned and APPrO found that the presentations by all parties to be professional and informative.

APPrO understands that the Board is proposing to conduct subsequent NGMR on an annual basis in the future. APPrO is supportive of this frequency. Some of the questions below go to the need for communication among stakeholders. APPrO believes that an annual NGMR process is good start to filling this void.

The Board had outlined a series of issue areas to help guide party's final submissions. APPrO will limit its comments to these issue areas (APPrO has not addressed all the issues).

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?**

Most of APPrO's generator members currently do not purchase gas supply from the utility. In most circumstances they arrange their own upstream transportation and supply to meet their fuel requirements. On the surface, generators appear not to be affected by distributor supply plans, however utility supply plans can and do affect generators.

The shale gas revolution has radically changed the gas supply dynamics over the last several years. Throughput on traditional transportation routes from Western Canada, in particular on the TransCanada Mainline, has declined dramatically and transportation routes to the Northeast US through Niagara have now reversed to allow shale gas to be imported. New pipelines have been proposed to allow further access to these US shale supplies. Utilities are actively shifting their gas supply to access these new supply sources to seek new supplies at a lower cost.

The declining throughput on the TransCanada Mainline has precipitated changes to the commercial terms of its transportation contracts as well as the availability and toll level of certain transportation services. These changes have increased the transportation cost to generators as well as increased the risk of access to capacity. The pursuit of new shale supplies has shifted costs and risks to the remaining shippers on the Mainline. This shift in costs and risks may not be reflected in the utility supply plans.

Access to new supplies also drives new infrastructure plans. The cost of these new infrastructure developments are also borne by all parties, whether or not they benefit from accessing the new lower priced supplies.

In order to better inform the Board about the impact of supply plans, the Board could seek stakeholder input on public interest issues. These issues then could help inform the Board about the broader impacts of these supply plans.

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

The current supply dynamics are changing and it is important that the build out of the infrastructure to accommodate these changes be done with the overall public interest in mind. Since Ontario does not have a Province-wide integrated long term gas supply and infrastructure plan, the current practice of addressing the need for new facilities within the context of a facilities application, makes it difficult for the Board to evaluate any specific facilities. This kind of process does not have the benefit of broad stakeholder input. Moreover facility applications are filed in time to meet a reasonably immediate market need. Delaying approval can negatively impact the market need that is driving the facility. Once utilities have filed a facility application, it is likely too late to consider alternative options without negatively influencing the current market need. Developing a more integrated gas supply and infrastructure plan in the context of Ontario's long term market demands would provide a more comprehensive framework to evaluate any specific infrastructure application.

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?***

Currently there is no systematic oversight of the natural gas market in Ontario. Utilities look after the upstream requirements of their system supply requirements, but no one coordinates the overall market requirements of both system supply and direct purchase customer requirements. The Board does have a role to ensure that the market operates efficiently. While this responsibility may not be an explicit objective, it is embodied within the collective of Board objectives under section 2 of the Act. An efficient market impacts access to supply, the of price gas as well as the cost and reliability of the natural gas system. The Board can influence the types of distribution, transmission and storage services offered by the utilities. The Board can also mandate the utilities to make relevant information available to the public, on a timely basis; this would help the market participants.

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?***

(No comment)

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?***

(No comment)

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?***

The issues that are arising in the industry are increasing complex and span multiple jurisdictions (Provincial, Federal and International). One key message in this NGMR is the shift in supply dynamics. The shift to US shale gas will require expansions of pipeline systems governed by all of these jurisdictions. Differences in approaches, conditions, and timing by these regulators can affect other projects in the supply chain.

It was evident from this NGMR that pending nuclear retirement and nuclear refurbishment programs will result in gas fired generation playing a much larger role in the future than it has in the past. This issue was also highlighted in the Navigant Report that indicates that the demand for natural gas from gas-fired power generation will increase from 0.3 bcfd in 2013 to 1.1 bcfd in 2025[1] to accommodate these nuclear programs. Furthermore the OPA also highlighted that the role of the gas-fired power generation will also need to be even more flexible in the future than it has in the past in order to provide the swing generation capacity in Ontario:

> *Gas-fired generators will need to become more flexible as they take the place of coal generation in terms of compensating for intermittent generation*[2]

Advance understanding of the upcoming programs and the generation mix that will influence gas-fired power generation could help inform the Board of potential changes that may need to be made in the natural gas sector to accommodate these power industry programs. The Independent Electricity System Operator (IESO) is responsible for the planning and operation of the Province's electricity system. Inter-agency coordination with the IESO could help to inform the Board of the timing and nature of their programs. Similarly feedback from the Board to the IESO also may provide valuable impact on relevant gas issues.

Issues such as the changing demands of gas-fired power generation to ensure that the power market has the flexibility it requires, and the need for upstream transportation that addresses this transportation flexibility will be important to ensure that economic viability of the generators are not imperiled. These transportation issues also span federal jurisdiction. Inter-agency communication on these types of issues will be important to help address these market requirements.

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***

  APPrO believes that the move to an annual NGMR event will provide a forum for these issues to be raised and discussed on a regular basis. As new issues arise the Board could also focus on any topical issues that have arisen. The Board could also include solicit input for additional issues of importance to stakeholders as it has in this proceeding

- ***facilitate better cross-sector communication and coordination (e.g. the impact of GDAR on potential information sharing between electricity and natural gas stakeholders)?***

  See response to issue 9

[1] 2014 Natural Gas Market Review Final Report dated December 22, 2013, page 33
[2] Ontario Power Authority Presentation page 20

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

Utilities, transmission and storage companies have certain information on gas flows, storage levels, available capacity etc. This information, if made available to the public on a near real time basis, could provide the industry with information that could be used to help to optimise the system and increase the efficiency of the natural gas market. This would be similar to what the IESO does in the power market.

In addition to selling services under the regulated pricing regime, storage companies also offer non-price regulated services. These companies also operate transmission operations. These companies may have access to market information that is generally not publically available raising a potential concern of whether these companies have an information advantage.

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?***

The Board could look to the power markets for examples of processes that could be considered to facilitate broader industry issues. In the past, both the OPA and the IESO held stakeholder engagement processes such as the Stakeholder Advisory Committee (SAC). Recognizing the legislative differences, perhaps adopting something similar to these models could assist such stakeholder discussions and help inform the Board. For example the following outlines the framework of the IESO SAC:

- *"IESO Stakeholder Advisory Committee provides appointed stakeholder representatives with the opportunity to present advice and recommendations on market development and planning decisions directly to the IESO's Board of Directors and Executive Leadership Team. Members of the Committee represent electricity service providers, generators, conveyors and consumers of electricity. Stakeholders are encouraged to contact their representative on the Advisory Committee to provide input on issues that affect them. The Stakeholder Advisory Committee meetings are open to all stakeholders with an interest in the electricity industry."*[3]

[3] IESO Website http://www.ieso.ca/Pages/Participate/Stakeholder-Engagement/default.aspx