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February 8, 2016

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli,

RE: EB-2015-0237 - Comments of London Property Management Association

Attached, please find the comments of the London Property Management Association in relation to the 2015 Natural Gas Market Review consultation.

Yours very truly,

Randy Aiken

Randy Aiken
Aiken & Associates

Natural Gas Market Review

COMMENTS
OF
LONDON PROPERTY MANAGEMENT ASSOCIATION

A. INTRODUCTION

These are the comments of the London Property Management Association ("LPMA") related to Natural Gas Market Review ("NGMR") consultation and stakeholder conference established by the Ontario Energy Board ("OEB").

B. BACKGROUND

The OEB invited interested stakeholders to participate in the 3rd Natural Gas Market Review consultation by way of a letter dated November 25, 2015. Similar consultations were convened in 2010 and 2014. These consultation examined ongoing developments and related issues in the North American natural gas market and were designed to assist the OEB in its consideration of any potential impacts of such developments for Ontario's natural gas market.

A stakeholder conference was held on January 21, 2016. At the conference a number of parties provided presentations on the current trends for supply and demand, current market conditions, forecasts for infrastructure development in Ontario, community expansion, cap and trade in Ontario and Ontario's energy mix. All of these topics are interrelated.

C. COMMENTS

i) North American and Ontario Market Development

The consultation that took place on January 21, 2016 was similar in many respects to those that took place in 2010 and 2014. In particular, there was much discussion about the shift in the supply basins that has or will taken place to serve the Ontario market and the infrastructure needed to get that gas to Ontario. Much, if not all, of this information was known to many participants, especially those that participated in recent Union Gas and Enbridge Gas applications such as NEXUS (EB-2015-0166/EB-2015-0175), Union's Dawn to Parkway expansion project (EB-2015-0200), Union' Burlington Oakville project (EB-2014-0182) and the Dawn Reference Price proceeding (EB-2015-0181).

LPMA believes that the consultation on these issues remains valuable as it provides information to parties, Board staff and Board members who are not necessarily involved in all of the proceedings like those listed above. LPMA believes that an annual consultation is valuable in that it can highlight recent changes, trends or developments that have taken place or are expected to take place in a North American market context that is rapidly evolving.

LPMA submits that there are a number of specific developments that should be monitored by the OEB and stakeholders, including greater deliveries of gas at Dawn, greater deliveries of gas into Ontario at Niagara/Chippawa, reversal of flow into Ontario at Iroquois and the status and developments with respect to TransCanada Pipelines, such as Energy East, Eastern Mainline and King's North.

ii) Ontario Infrastructure Additions

Unlike previous consultations, there was an increased emphasis this year around infrastructure development in Ontario for both in province needs (such as community expansions) and out of province needs. There was also more emphasis on the potential impacts of cap and trade in Ontario.

The consultation also highlighted competing provincial government objectives. On one hand the government is encouraging the expansion of natural gas service to communities that currently do not have access to natural gas, while on the other hand, it has committed to the reduction in carbon from burning fossil fuels.

a) In Province Demand

As noted above, there are competing provincial government objectives that the OEB needs to deal with. The government wants natural gas to be available to more customers, but it wants total consumption of natural gas to decline.

LPMA submits that the OEB needs to review the EBO 188 guidelines and include in the analysis any potential impacts of cap and trade on the costs of fossil fuels such as natural gas.

The analysis also needs to be expanded to include non-traditional models of serving communities such as LNG and CNG rather than the standard method of connecting these communities to the existing gas distribution and transmission grid. The use of LNG and/or CNG for peaking and/or distributed storage could have an impact on the size of the transmission or distribution main that connects the community to the existing grid. It would also open up this part of the distribution service to competition since there are competitive options available for the construction and operation of LNG and CNG facilities.

The level of subsidization from existing customers to new customers is also an issue which the Board must address. It is assume that this will be part of the recently announced review in EB-2016-0004.

However, LPMA submits that an even bigger issue is whether or not natural gas expansion to communities that currently do not have access to natural gas is the best public policy in light of the provincial government's commitment to significantly reduce the consumption of fossil fuels in Ontario.

As indicated in the Enbridge presentation, it believes natural gas consumption will need to decrease by as much as 40% by 2030, less than 15 years from now. The implementation of a cap and trade scheme could significantly increase the cost of natural gas for all customers.

Taking into account not only the relative price of energy including the costs associated with cap and trade, but the impacts on distribution and transmission rates, it may well be that expansion of natural gas is not the most economic outcome in the long run.

Expansion of natural gas to a community is likely to reduce the electricity consumption in that area. However, since the distribution costs are generally fixed and independent of the amount of power consumed, there will be no corresponding decrease in electricity distribution related costs experienced by the customers. In fact, over time, if the level of electricity consumption for a household or a business falls to some level, it may be economic for that customer to generate their own power and disconnect from the grid, leaving their share of the distribution costs to be recovered from the remaining customers. A well designed cap and trade program would encourage this evolution.

LPOMA also believes that the Board needs to consider other alternative methods to serve communities, such as geothermal systems which have a significantly lower environmental footprint than does natural gas and in the long term could provide significant cost savings to customers as compared to natural gas. Electricity needed to power a community wide geothermal system could be generated with natural gas and transmitted to the community using existing electrical infrastructure. It may well be that burning natural gas to generate electricity (and produce steam through a cogeneration plant) may be superior from an environmental perspective than burning natural gas for space heating and water heating.

LPMA submits that the days of the OEB only looking at the issue of who subsidizes who for natural gas expansion are gone, or should be gone. Shale gas has revolutionized the gas supply market in North America, and indeed around the world. In the same way, environmental policies around the world are likely to revolutionize the mix of energy consumption, including that in Ontario.

As will be noted in the following section, LPMA is concerned with putting assets into rate base today that may become stranded well before the end of their physical lives. This causes ratepayers to more now and more later. They pay more now to subsidize natural gas expansion and they pay later when the assets are stranded or utilized at a much lower rate.

<u>b) Out of Province Demand</u>

With respect to the expansion of natural gas infrastructure within Ontario being driven by out of province demand, LPMA believes that the Board needs to review the regulatory implications of recent and anticipated market development for planning natural gas asset investments over the short term and the long term.

As an example, Union continues to expand the Dawn to Parkway system. The pipe put into the ground has a long life, typically 50 years or more. The need for these new assets is underpinned, in general, by 15 year contracts. So what happens to those assets 15 years from now if natural gas consumption is reduced significantly?

As part of the Enbridge presentation on cap and trade impacts, it was indicated that Ontario is likely to have to reduce natural gas consumption by up to 40% by 2030. This is less than 15 years from today. If other provinces and states have similar targets, there is a very real possibility that there will be assets that are being put in place today or tomorrow that will be stranded well before the end of their physical useful life.

LPMA believes that the Board needs to review the need for further infrastructure investment in Ontario for out of province demands taking into account the potential of existing assets below current levels of capacity utilization and to consider the potential for stranded assets within a relatively short time frame.

LPMA recommends that the Board undertake a review of the "EBO 134 Report of the Board on the Expansion of the Natural Gas System In Ontario (1987)" report. In light of changes in the natural gas market in North America and in government policies with respect to carbon emissions, proposed expansions of natural gas transmission systems in Ontario should take into account existing alternatives to the proposed expansions to ensure that only economically prudent long-term capital investments are made based on out of province demands. This is not to say that these investments should not be made, but that the Board should look at mechanisms that would ensure that captive ratepayers in Ontario are not stuck with the costs for stranded assets. For example, one such mechanism would be to base depreciation rates not on the physical life of the assets being constructed, but on the economic life of the assets, or on the contract life of the assets.

c) Summary

Given the government intention of reducing the consumption of fossil fuels in Ontario and the corresponding need to reduce total natural gas consumption in the province, LPMA believes that the Board must take a broader view on the need for expansion of natural gas infrastructure in Ontario. Ontario is likely at or very close to peak gas consumption. The OEB should not be approving additional infrastructure that is likely to end up as a stranded asset in the not too distant future. At a minimum the OEB should be looking for mechanisms, as part of EBO 188 and/or EBO 134, that mitigate the possibility of stranded assets.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

February 8, 2016

Randy Aiken

Consultant to London Property Management Association