VIA E-MAIL & COURIER TO THE BOARD

February 8, 2016

Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4

Attn: Kirsten Walli, Board Secretary

RE: EB-2015-0237 Natural Gas Market Review - FRPO Submissions

Please find attached the comments of the Federation of Rental-housing Providers of Ontario ("FRPO") in the above proceeding.

Respectfully Submitted on Behalf of FRPO,

Dwayne R. Quinn
Principal
DR QUINN & ASSOCIATES LTD.

c. Interested Parties - EB-2015-0237

Introduction

In its July 13, 2010 letter, the Board announced the initial Ontario Natural Gas Market Review ("NGMR"). An excerpt from the first page read as follows:

> *"A specific objective of this initiative is to determine the need for regulatory changes, if necessary, in response to potential impacts identified.*
>
> *Through this Review the Board will consider, for example, what might be the implications of increased shale gas production?*
>
> - *Will it change the flow pattern of natural gas? If so, will this increase the need for new pipeline services and routes and reduce the attractiveness of others?*
>
> - *Will it impact the price of natural gas in Ontario arising from incremental supply and a potential increase in pipeline and storage facilities?*

We respectfully submit that the changing market that was anticipated in the 2010 review is being realized in today's market. The changing dynamics from long-haul to short-haul transportation was cast in the Mainline Settlement Agreement between TCPL and the Eastern Canadian LDC's. How does the Ontario Energy Board create conditions to allow for economically rationale expansion of natural gas infrastructure and energy conscious policies for the benefit of industry stakeholders and most importantly the public interest? In our view, that is the question at hand.

We respect and appreciate the Board's continued investment of time in the NGMR as an opportunity to get a snapshot of the horizon for issues and opportunities that are expected to affect conditions in the market. We appreciate the opportunity to engage the presenters at the Forum held on January 21st and offer our comments as requested in the Board's November 25th letter. To assist the Board, we have focused our comments on the nearer term trends and the implications for the Ontario market and provide some comments on the developments from the 2014 NGMR. Given the infancy of the carbon cap and trade, we will defer our comments until more is known about the regulations.

The short to medium trends could be summarized by saying that advances in drilling technology have lowered the cost of the commodity. However, understanding these movement of gas trends, making sound balanced decisions and recognizing all of the costs of getting the gas from

the well head to the customer is crucial to determine how much gas consumers benefit from these changes. By understanding these market developments prudent approaches can be undertaken to invest in assets over the long term or potentially defer investment through strategic sourcing of gas and tapping market based solutions to meet capacity needs.

Appalachian Gas is Driving Change in Historic Natural Gas Infrastructure Utilization

Natural gas consumers in North America have benefited from new drilling technologies that have produced expanding volumes of gas at ever decreasing marginal costs of production. While this is a continental effect, the most prolific example is in the Appalachian region where Marcellus and Utica shales deposits are being harvested at rates beyond even the most optimistic forecast. This unprecedented growth in supply near traditional market areas has had a dramatic effect on pipeline flow.

In the OEB gas supply consultation, we presented our overview of these changes. For the benefit of the reader, we have included some of the slides from that presentation in the Appendix to these submissions. While burgeoning supply has lowered the overall cost of gas in North American markets, the push of gas out of Marcellus has resulted in new and reversed flow paths to get this gas to market. As a result, the US Energy Information Administration projects that by 2017, 32% of the natural gas pipeline capacity to the US northeast could be bi-directional by 2017.[1]

In our submission, this reversal is the market response to increasing supply being available at decreasing recovery costs in the Appalachian basis. One of the best examples of this evolution is the Rockies Express Pipeline ("REX"). The pipeline was built to bring gas sourced in the Rocky Mountains east connecting to pipelines in Pennsylvania to give producers access to higher price markets in the US northeast. While the pipeline was only completed in 2009, in 2015, REX completed second increase in its capability to provide more than 1 BCF/day of service going

[1] Excerpts from FRPO Presentation filed in EB-2015-0238 as FRPO_OEB_GAS SUPPLY CONSULT_20151125 contained in Appendix page 3 of 4.

west out of the Pennsylvania back toward consuming markets in the mid-west[2]. The REX reversal is one of many projects being implemented to find efficient ways to bring gas to market while leveraging existing asset utilization.

Another similar project is the South to North Project ("SONO") which is planned by Iroquois Pipeline[3]. The Constitution Pipeline is being built to bring Appalachian gas to a interconnection with the Iroquois pipeline at Wright. The project is scheduled to be completed in late 2016 or early 2017 confirmed by ICF at the NGMR Forum. Additional gas feeding into the middle of the pipeline creates an opportunity to reverse the historical flow carrying gas north to the export/import point of Iroquois/Waddington. As a result, TCPL has committed to providing a receipt service at Iroquois starting November 2017. This incremental capability could serve eastern Ontario markets such as Ottawa reducing the need to ship gas from points further west like Dawn.

Implications for the Ontario Market

With this backdrop, we want to focus on the Ontario market implications and, in our view, the regulatory considerations.

Board Oversight on All-in Cost of Service

Historically both utilities relied on long haul contracts from TCPL as a substantial part of their portfolio. Given the sunk demand charge, the goal was to keep the long-haul full, reducing the burden of paid for pipe remaining empty commonly referred to as UDC. This long-haul gas was stored in the summer so the utilities needed to plan storage accordingly. However, in the winter, these long haul contracts contributed significant volumes to the market area. In moving to a more short-haul centric model, it has been incumbent on the utilities to re-think their peak winter supply strategies to provide secure supply at the best risk-adjusted price for their customers.

[2] https://rbnenergy.com/big-deal-rex-to-open-the-floodgates-5-2-bcf-d-of-marcellus-utica-natural-gas-receipt-capacity

[3] Excerpts from FRPO Presentation filed in EB-2015-0238 as FRPO_OEB_GAS SUPPLY CONSULT_20151125 contained in Appendix page 3 of 4.

While these strategies have been evolving, infrastructure proceedings around Dawn-Parkway and GTA projects have focused on landed cost. In our view, that does present the full picture. Landed cost is getting gas to a point on the system based upon commodity cost at the source and the transportation cost to market but does not take into account the all-in cost of gas on an annual basis. Simply put, landing the gas at Dawn throughout the year is one cost – getting it to Kapuskasing in the middle of January is another. In our view, the Board should be able to see and approve the all-in cost.

Utility Gas Supply Portfolios Should Evolve with the Market

With evolving flow patterns, different paths are being created. Without diminishing the value of Dawn as a trading hub, sourcing most of the Southwestern Ontario gas through Dawn is counter-intuitive to the utilities own declared principles of delivery point diversity and system integrity. As TCPL presented, the Union South portfolio will have over 90% of its gas sourced from the southwest. It is increasingly evident that moving all purchases to Dawn increases the need to build more Dawn-Parkway capacity, while bringing gas in at Niagara allows for some of the east to west push of gas to reduce the facilities build. It is these system costs that are not accounted for in landed gas cost analyses, gas supply memos or certainly QRAM. We submit that it is incumbent upon the system gas provider to investigate the opportunities these new flow paths create for the benefit of their customers.

In addition, in the next few years, the receipt point of Iroquois will provide Ontario with another access point to natural gas. As a result, for example, Enbridge could access initially 40,000 GJ/day of Marcellus gas that would feed its Ottawa market year round without being diverted to storage, displacing Alberta supply. With an annual contract, that gas would also be getting to market more efficiently each day of the winter as opposed to contracts sourced from Dawn that need additional pipeline capacity to get from Dawn to market when needed.

We have also been promoting the opportunity for Union to source more of system gas supply at Niagara to diversify the portfolio and reduce the continued pressure to build more Dawn Parkway capacity. In our view, Union's systemic aversion to sourcing gas through Niagara is

not well investigated resulting in misapprehension. We submit the resulting disregard of the opportunity is not in the public interest. For example, among the prime reasons Union has cited is the lack of capacity available from Niagara and the cost to increase that capacity. In fact, in the Nexus Technical Conference, Union witness testified[4]:

> *MR. SHORTS: Mr. Quinn, can I inject a little bit of reality into this conversation? Right now we are seeing that the Niagara to Kirkwall capacity is essentially sold out. That delivery mechanism is already developed. Union partook 20,000 back at the first -- one of the first shippers to contract there, but going forward, there is no more available capacity, and our understanding is that any significant number, much like this 150, would require some significant infrastructure to be developed.*

This testimony stands in stark contrast to slides presented by TCPL in the NGMR Forum. Those slides presented an additional tranche of capacity be available by November 2016 and a further 400 to 500 TJ/day of relatively low cost capacity. Upon inquiry after the presentation, TCPL staff confirmed that the cost for the incremental hundreds of thousands of GJ/day would be tens of millions. This economic capacity is available by increasing the amount of capacity that can be reversed on an existing pipeline. It is important also to contrast this cost of tens of millions to the hundreds of millions required to create a comparable amount of capacity in both of the 2016 and 2017 Dawn Parkway Expansions.

Union has also concerns about transacting at Niagara. Their witnesses testified that it is a difficult market to trade in because suppliers who bring their gas to Niagara want to take it to market or Dawn[5]. While this desire to flow gas from Niagara to Dawn presents an opportunity which we will elaborate on later, these issues are not insurmountable. As evidence of that, while Enbridge has also expressed some concern that the Niagara market is more difficult to transact in than Dawn, their witnesses testified that they recently contracted for **200 TJ/day of supply at Niagara for 22 months fixing the cost of their transport to Niagara at 46 cents less than transport to Dawn[6].**

[4] EB-2015-0166 Transcript Volume 1, Technical Conference, September 8, 2015 page 28 lines 13-21
[5] EB-2014-0182 Transcript Oral Hearing, Volume 1, page 150-151
[6] EB-2015-0166 Transcript Volume 1, Technical Conference, September 9, 2015, pages 57-58

In our view, the opportunities of Niagara supply for Union customers ought to be investigated more thoroughly. Clearly, the production of this type of investigation is not a topic for a QRAM proceeding. We hope that this type of investigation can be done as an outcome of the LDC Gas Supply Consultation. Since that is an on-going parallel proceeding, we will not elaborate further in this submission. However, we believed it was important to highlight this issue and opportunity in the NGMR.

Opportunities for Market Based Services to Avoid Over-build

As supply markets evolve and the costs to move the gas to market changes, astute consumers will evolve their approach. As an example, about 10 years ago, northeast US LDC's moved their supply source from Alberta to Dawn due to rising TCPL long haul transport rates. Recently short-haul TCPL rates have increased dramatically (approximately 50%[7]) as a result of the Mainline Settlement Agreement between TCPL and the Eastern Canadian LDC's. With supply sources in Appalachian, the US LDC's are much more proximate to the basin and depending on resulting pipeline tariffs for new paths, these LDC's may source gas differently in the next 10 years. These risks were identified and analyzed in the 2016 Dawn Parkway expansion proceeding in evidence submitted.[8] As a result of the ratepayer groups concerns, the settlement proposal included a provision for the issue of who bears the risk for capacity turnback on the Dawn Parkway system to be determined in Union's next rebasing proceeding[9].

In our view, one of the best ways to reduce the risk of future stranded assets is to avoid building those assets or defer the build until more clarity is available on future contracting. One very feasible approach is using the new directions of flow to mitigate the need for capacity in the other direction. As mentioned above, Union has stated that much of the gas imported at Niagara is heading straight to Dawn. In the infrastructure proceedings this fall, we explored the opportunity to use gas that comes in to Union's system at Kirkwall heading for Dawn as an opportunity to mitigate capacity requirements from Dawn to Kirkwall. We learned that by

[7] NEB Decision with Reasons, RH-001-2014, December 2014. http://publications.gc.ca/collections/collection_2015/one-neb/NE22-1-2014-3-eng.pdf
[8] EB-2014-0261 UNION GAS 2016 DAWN-PARKWAY EXPANSION: CAPACITY TURNBACK ISSUES submitted by John Rosenkranz on behalf of CME, FRPO and OGVG.
[9] EB-2014-0261 Settlement Proposal Updated filed March 6, 2015

November 1, 2016, almost 500 TJ/day is contracted from Kirkwall to Dawn[10]. If the gas arrives at Kirkwall headed for Dawn and Union has volumes it has to ship from Dawn to Kirkwall and beyond, the gas need not flow and the pipeline capacity is saved. This approach is known as displacement.

Union has explained that they cannot rely on this displacement approach for peak day needs as the shipper has a choice whether they nominate their volumes from Kirkwall to Dawn on those days. However, there is clear precedent of TCPL and Union providing incentive payments to market participants to commit to designated deliveries. From our calculations, incremental capacity could be made through incentives ranging from one quarter to one third of the cost of new builds on the system. The incremental benefit of this approach is that the incentives need not be in place for the life of a pipeline build (around 40 years of depreciation). Given this is a time of transition, we believe shorter term bridging solutions are more prudent than burdening pipeline builds.

In addition, to this opportunity, Union could allow Kirkwall to be a receipt point for obligated deliveries for direct purchase customers who are obligated to deliver to Dawn. By simply making this change in obligation, Union would control the requirement to have the customer meet their obligations to Kirkwall on a peak day.

We would also note that we share the concerns expressed by IGUA about Gas Transmission Expansion Criteria in its letter on the scope of this proceeding. Included in those submissions, IGUA has elaborated on parties believing that market based, non-facility solutions ought to be explored prior to pipeline expansion. We support this position and worked with all parties to incorporate similar wording in the settlement proposal for the 2017 Dawn Parkway Expansion.[11]

[10] EB-2015-0200, Exhibit B.FRPO.3, Attachment 1
[11] EB-2015-0200 Settlement Proposal filed November 13, 2015 pages 14-15

Developments from 2014 NGMR

Severe conditions provide opportunities to determine how effectively systems work when pushed to capacity. The winter of 2013/14 provided that opportunity to natural gas distributors and large volume customers when short term demand exceeded supply resulting in unprecedented prices in Ontario especially in the month of February 2014. As a result, purchasers of natural gas planned and monitored differently in the winter of 2014/15 and the prices in Ontario were much more stable even when February 2015 was colder than what was experienced in February 2014.

One of the greatest contributors to that stability was Enbridge Gas Distribution. Through the process of the 2014 NGMR, Enbridge conceded that they did not know the level of risk associated with their historic approach to winter gas supply. To their credit, in recognizing this risk, Enbridge evolved it strategies for targeting, monitoring and purchasing with a medium term view. This approach resulted in stable prices for their customers and reduced the potential for price run-ups at Dawn when a utility buys large volumes of gas in the day market benefiting all gas purchasers at Dawn.

We are also encourage that Union has applied for and the Board has approved a Dawn reference price for the commodity. Notwithstanding our continued concerns about ensuring the all-in delivery cost to the customer is evaluated, we believe that after a short transition period, the Dawn price will aid the market and the Board with more transparency and reduced issues.

Conclusion

In our view, the Ontario market is well-positioned geographically to benefit from developments in the North American natural gas market. We trust our submissions are helpful to the Board in understanding these developments and how our Ontario market may be enhanced by thoughtful incorporation of market forces and adapting to the trends. We encourage the Board to create conditions through consultations and proceedings that ensure non-traditional approaches are considered for the benefit of industry stakeholders and the public interest.

ALL OF WHICH IS RESPECTFULLY SUBMITTED ON BEHALF OF FRPO,

Dwayne Quinn
Principal
DR QUINN & ASSOCIATES LTD.

APPENDIX

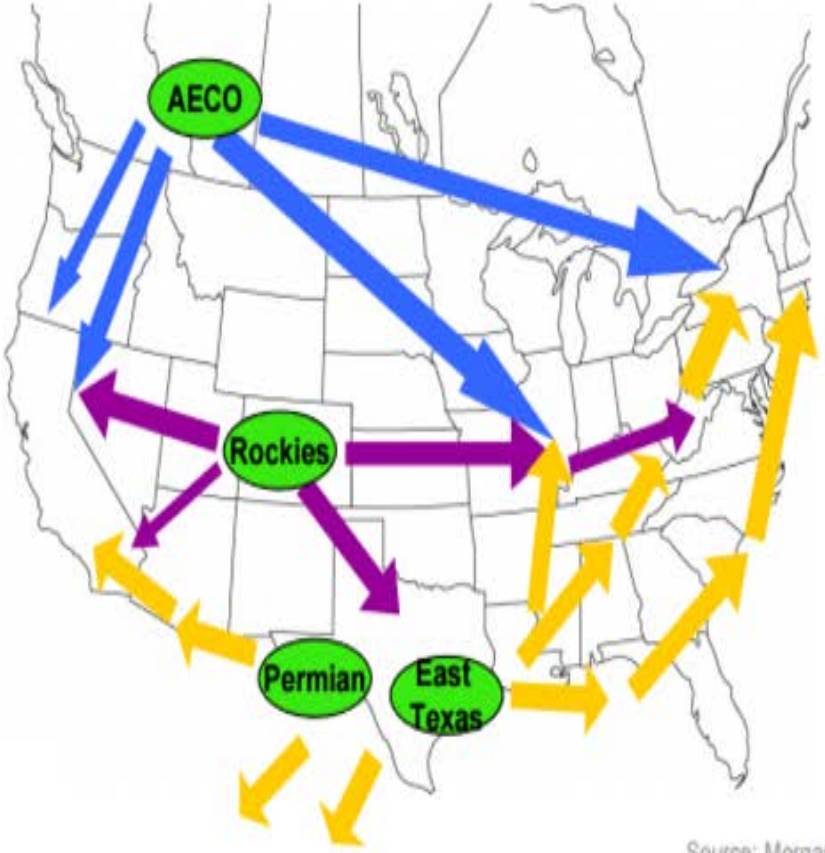
EXCERPTS FROM FPRO PRESENTATION

TO THE

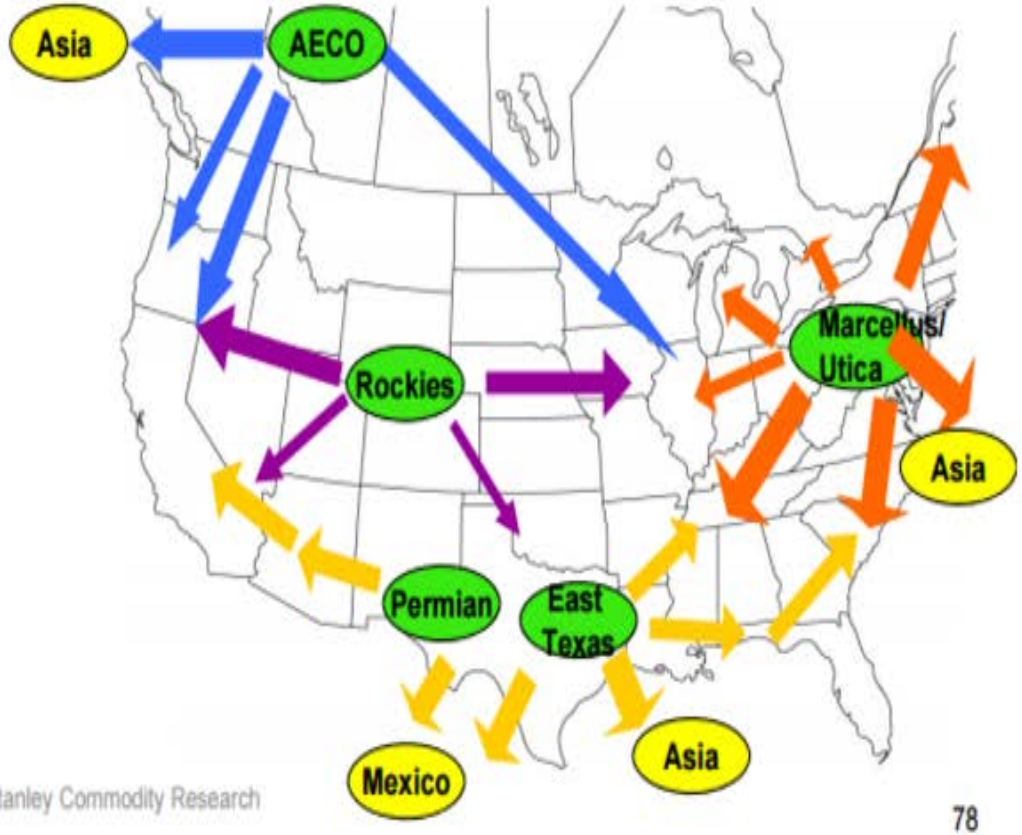
LDC GAS SUPPLY PLANNING CONSULTATION

DECEMBER 3, 2015

Historical Gas Flow



Future Gas Flow



Source: Morgan Stanley Commodity Research

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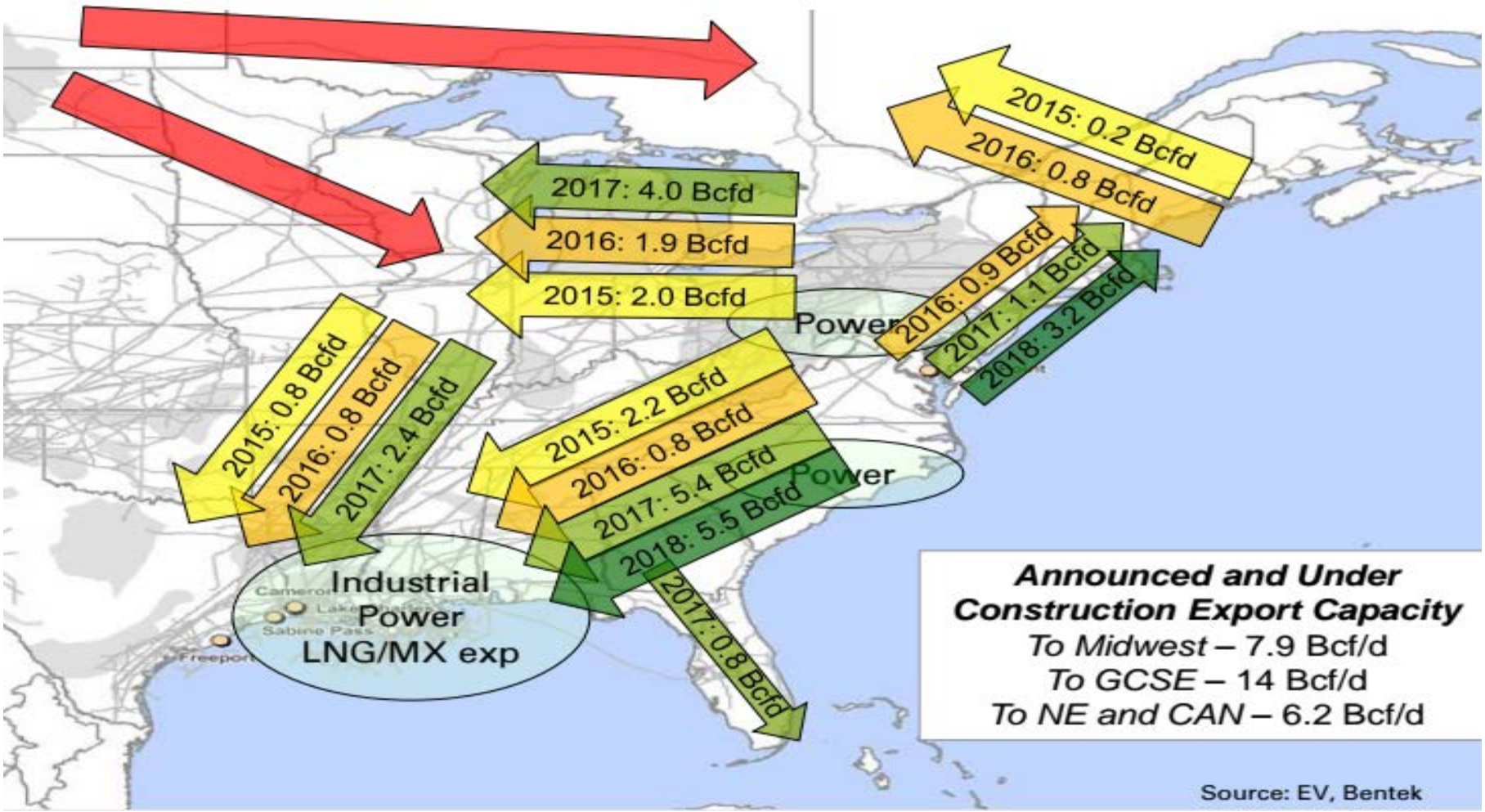

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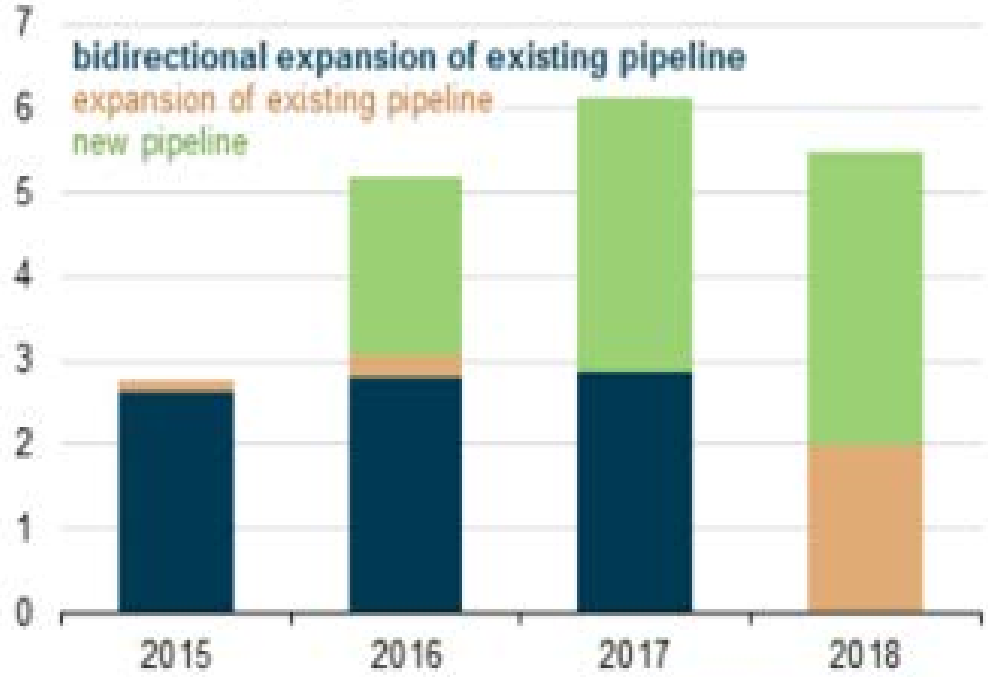
32% of natural gas pipeline capacity into the Northeast could be bidirectional by 2017

Planned interregional natural gas pipeline projects in the Northeast
billion cubic feet per day

eia



Source: U.S. Energy Information Administration, Pipeline Projects
Note: In this context, the Northeast includes the Northeast Census region as well as Delaware, Maryland, Ohio, and West Virginia.

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SONO PROJECT

Reverse flow on Iroquois offering physical transportation to U.S.-Canada border

Capacity – up to 650,000 Dt/day

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