

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

Observations/Comments

Energy Probe Research Foundation

February 10, 2015

Stakeholder Conference

Energy Probe's view is that the January 21, 2016 Conference hosted by the Board once again provided an excellent forum for exchange of information among stakeholders.

One remaining issue is clarifying the relationship of Natural Gas Market Review (NGMR) to the Utilities Gas Supply Planning Forum.

Context/Perspective for Energy Probe Observations/Comments

As a consumer-oriented organization with a focus on Energy Policy, Energy Probe wants to ensure that the decisions made by the OEB in regard to the province's natural gas sector are well researched and the result of informed debate among suppliers, gas transmission and distribution companies and Ontario consumer representatives.

Major Drivers for Lower Future Natural Gas Growth

As the 2014 Navigant Report clearly indicated, the natural gas landscape has changed dramatically over the last 5 years. This upheaval is expected to continue over the next 5 years.

One of the most notable changes since the 2014 Forum is that the forecast for a dramatic increase in gas-fired electricity generation has been pared back, both from a timing and a demand perspective.

In 2014, Navigant (Table 4) forecast gas fired generation to grow fourfold by the early 2020s. Yet, the 2015 update shows a drop in Ontario demand for gas generation compared to the 2014 review. Gas generation demand then begins to increase in about 2020, but at a slower rate than Navigant predicted last year.

The main reason for the fall in demand for gas generation in 2015-2016 is a large increase in renewable generation. The catalyst for lowering the forecast for gas generation demand beyond 2020 is the province's decision to introduce a carbon market in Ontario. Nonetheless, a number of nuclear retirements and a slowdown in renewable expansion still leave the province with a growing demand for gas generation in future years – albeit at a slower pace than previously forecast.

Security of Supply and Diversity

Our concern – first raised last year – over maintaining a balance and diversified gas sector remains. Would a more balanced approach entail maintaining a strong relationship with the Western Canadian Sedimentary Basin (WCSB) and, importantly, be positioned to take advantage of potential new Western shale gas developments, particularly for the Ontario's northwest gas market?

Price outlook

Relative to 2014, the ICF current outlook forecasts much lower natural gas prices both at Henry Hub and Dawn:

- Low drilling costs will keep price below \$4 per MMBtu until 2019.
- Long-term prices are expected to range between \$4.25 and \$5.25 per MMBtu.

Ontario Infrastructure Development

One result of the North American “shale revolution” is that the utilities have undertaken major investments in new pipeline capacity to access these new deposits of cheap gas. Collectively – among Union, Enbridge and TransCanada – these new investments amount to ~1500Gj/day in Ontario.

Since the 2014 NGMR, Union has announced plans for the expansion of the Dawn Parkway System.

Open season for Dawn Parkway System transportation capacity:

- Up to 350 TJ/d of contracted capacity in 2018
- Up to 600 TJ/d of contracted capacity in 2019
- Coordinated with TransCanada 2018 New Capacity Open Season
- Closes January 22, 2016.

We do not have the results of the Open Seasons.

It would be appropriate for the Board to request Union and TCPL to file this information as part of their concluding comments in the Forum.

Other Infrastructure Development in the Northeast United States

New pipeline infrastructure is proposed to move natural gas from Appalachia to Dawn (such as ETP Rover, NEXUS and expansions to Niagara/Chippawa).

Union forecasts a balance between Appalachian imports at Dawn and at Niagara/Chippawa by 2017.

TCPL has highlighted that Chippewa Niagara and Waddington will provide entry points at lower unit pipeline costs.

In regards to further infrastructure development, leaving aside Cap and Trade considerations, we believe the Board should require Union to consider the additional costs of adding more gas infrastructure in the province in 2018-2020 given the growing capacity at other import points, primarily Niagara.

Stakeholder Engagement

As noted above, the changing gas landscape will require rethinking some of the current supply/delivery requirements.

The most significant new development is the introduction of Cap and Trade in Ontario. As Enbridge indicated in its presentation (based on ICF Outlook):

- Residential, commercial, institutional gas consumption needs to decline by around 40% by 2030
- Even if industrial emitters are protected from cap and trade, consumption will need to decline by 20 – 30%
- No net increase in gas consumption for electricity generation.

If these predictions are valid, then EGD indicates:

- The pace of natural gas demand growth in Ontario will slow
- Green Energy solutions using the gas infrastructure will gain market share.

Energy Probe's comments on Cap and Trade

Energy Probe supports CME's suggestion that the Board implement a generic proceeding or policy consultation in order to develop its policy on how natural gas distributors will implement the province's cap and trade program. According to Enbridge's presentation, the utility expects that cap and trade could incur an additional \$300 to \$500 million in annual costs – costs that will be passed on to its customers. Union may incur similar costs. The bill impacts, as Enbridge highlighted, could be significant for some customers.

In light of that information, we believe the Board should consider how it plans on implementing the province's cap and trade program in order to achieve the greatest environmental benefit at the lowest cost.

Conclusion

It is important that the Board continues to provide opportunities to all Ontario gas users to participate in future developments and decisions that impact the delivered price of natural gas in the Province.