VIA E-MAIL

March 8, 2015

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

RE: EB-2015-0238 LDC Gas Supply – FRPO Comments to Comparison Table

We would like to thank the Board for the opportunity to submit our comments to the Comparison Document provided by Union Gas and Enbridge Gas Distribution (collectively "the LDC's" or "utilities"). We appreciate the investment of time by the LDC's to provide a starting point for an overview and comparison of gas supply functions. To assist the Board, we will provide some observations and then offer our comments following the Table of Contents issued by the Board on January 8th which provides structure for the comparison table.

Need for Board Oversight in LDC Gas Supply Matters

One role of the LDC is to provide system (default) gas supply service on a not-for-profit basis. A cost effective, risk managed approach enhances the business opportunities for the utility and is good for the consumers. By keeping the cost of the commodity down, the utility can obtain more market share of the energy needs of the consumer thus increasing the opportunity to expand the system enhancing shareholder opportunity while providing a good economic energy choice for the consumer. Over the years, aligning the goals of the utility and the consumer has been the approach relied on to serve the public interest while allowing the complex integrated gas supply planning function to be managed by the utility as somewhat of a "black box". However, over the last several years, it has become apparent that this utility function requires oversight.

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In 2009, FRPO urged the Board to provide more opportunity for discovery in the area of cost allocations assumptions underpinning Union's deferral account dispositions related to storage services to its customers[1]. In spite of an independent study of the accounting methodologies by a Union Gas sponsored consultant supporting Union's methodologies, the contested proceeding resulted in the Board determining, among other changes, that Union had inappropriately charged a hurdle rate return on assets that were in fact service contracts[2]. The result of this approach was Union was expensing the service provided by others then allocating an additional cost to customers for a return on assets to its shareholders for assets that it did not own. Adjustments which flowed from this decision resulted in consumers receiving over $10 million each of two years following the decision[3].

Further, in 2012, FRPO initiated inquiry into Union's gas supply strategies and allocation of costs and benefits to customers as a result[4]. Through the process of discovery and submissions, the Board ultimately found "that Union's ability to "manufacture" optimization opportunities undermines the credibility of Union's gas supply planning process, the planning methodology, and the resulting gas supply plan"[5]. Beyond the $20 million dollar impact to consumers determined in the deferral account proceeding for that year[6], the decision called for Union to provide the Board with an independent, expert review of its gas supply process and methodologies[7]. While the Board approved Union Gas' proposed Gas Supply Memorandum approach[8], Union now contends that the Gas Supply Memorandum

[1] EB-2009-0052 FRPO Submissions May 28, 2009.
[2] EB-2011-0038 Decision and Order dated January 20,2012
[3] Ibid and EB-2012-0206 Decision on Board Motion dated July 18, 2012
[4] EB-2011-0210 FRPO IR's to Union Gas submitted April 10, 2012
[5] EB-2011-0210 Decision and Order dated October 25, 2012, page 36.
[6] EB-2012-0087 Decision and Order on the Preliminary Issue dated November 19, 2012
[7] EB-2011-0210 Decision and Order dated October 25, 2012, page 40
[8] EB-2013-0109 Decision

is submitted to the Board for information and not for approval[9]. However, ratepayer groups contend that position[10 11].

In our view, from the accounting for storage services[12]to the contracting for transportation services[13], the Board has determined in review of utility approaches to specific elements of gas supply planning that intervention into utility gas supply operations has been required in order to ensure that costs passed on to system gas users are appropriate and prudently incurred. We would recommend the Board require a rolling 5-year gas supply planning evidence to be submitted for testing and approval by the Board.

Process Considerations

Since previous decisions of the Board restrict the amount of short term hedging of the price of the commodity the LDC's can perform, the impact of the gas supply plan to the consumer comes through other aspects of risk management such as timing of purchases relative to demand and choices for long term supply sources in the gas supply portfolios and especially in the long-term infrastructure commitments. The choices the utility makes in terms of supply sourcing relative to short term demand can have a significant impact on the costs to consumers as the winter of 2013/14 demonstrated.

[9] EB-2015-0010 – Union Gas Limited – 2014 Disposition of Deferral Account Balances and 2014 Earnings Sharing Amount – Union Response to CME and IGUA Letters submitted August 19, 2015.

[10] EB-2015-0010 – CME Letter on behalf of Consumers Council of Canada ("CCC"), Canadian Manufacturers & Exporters ("CME"), the Building Owners and Managers Association, Greater Toronto ("BOMA"), the Federation of Rental-housing Providers of Ontario ("FRPO"), Vulnerable Energy Consumers Coalition ("VECC"), London Property Management Association ("LPMA") and School Energy Coalition ("SEC") regarding gas supply plans submitted August 5, 2015.

[11] EB-2015-0010 - EB-2015-0010: Letter on Behalf of Intervenors Regarding Review of Gas Distributor Gas Supply Planning

[12] EB-2011-0038

[13] EB-2011-0210

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FRPO and other ratepayer groups identified concerns with the spike in consumer costs following the 2013/14 winter in Enbridge's April 1, 2014 QRAM application[14]. Through a series of letters[15], FRPO identified concerns about Enbridge's gas purchasing relative to targeted levels for storage and that the QRAM process did not allow for the proper discovery of that information. Clearly, the QRAM process was insufficient to delve into the drivers for the price spikes. As a result, this issue was discussed in front of the Board with the joint Enbridge /FRPO panel in the 2014 Natural Gas Market Review. In that discussion, it was conceded that managing closer to target could have saved consumers over $100 million dollar[16]. To Enbridge's credit, they evolved their gas management strategy for the winter 2014/15 to manage more closely to storage targets resulting in considerable savings to consumers[17].

Contextual Considerations

While intra-year gas management can have an impact on short term prices, gas supply portfolio choices and longer term capacity or infrastructure commitments can have a more subtle but longer term (and ultimately larger) cost impact on consumers. A contextual consideration that differentiates the two LDC's is the amount of involvement each utility has in transmission system operation. Enbridge receives transmission service from TCPL to its district gate stations and, as a result, has little involvement in transmission system operation. Union's northern franchise is served in a similar fashion with TCPL being the transmission system operator. This is not the case for Union south. In fact, Union Gas is the transmission operator and because of its role in operating the Dawn Hub, in many ways, it is also the gatekeeper of the market. The best interests of the system operator (i.e. maximizing utilization of its assets) can be in conflict with those of its customers (i.e. getting the best deal from among competing providers). This conflict was FRPO's and others concerns in the Nexus proceeding[18] as Union has been systemically supplying its South territory through from the west and not emerging

[14] EB-2014-0039
[15] EB-2014-0039 FRPO Submissions, dated March 17th, 24th and 26th
[16] EB-2014-0039 FRPO_EGD_STORAGE BALANCE APPROACH_20150116 correct from the 20141114 submission with the assistance of Enbridge.
[17] EB-2014-0276 Technical Conference Transcript, pages 4-6.
[18] EB-2015-0166/0175 FRPO_ARG_NEXUS_20151126, pages 8-15

supply points of Niagara and Iroquois. In our view, this potential for conflict must be balanced in an informed way by the economic regulator.

Once again, we would recommend that the Board required the submission of a rolling 5-year gas supply plan in rate cases for testing and Board approval. This enhancement would provide opportunity to ensure that the LDC's are implementing longer term gas supply strategies that are in the best interest of consumers. The QRAM process does not provide such opportunity.

<u>Comments on the Table of Contents Provided by the Board</u>

<u>Table of Contents</u>

1. Objectives

   a. **While the document conveys no material difference: EGD emphasizes the paramount importance of peak day, while Union notes annual, seasonal and daily.**

   b. **All in costs to deliver should be understood to make informed decisions. In Union's case, bringing in gas through Dawn requires incremental Dawn-Parkway build. These builds are occurring at close to twice the existing embedded rate. Further, feeding communities in the NDA from Dawn requires either short-haul FT or STS capacity to get gas from Dawn to the NDA in the winter (previously FT from Empress was used in the winter supplemented by STS). Union's new approach changes the cost from a transportation cost which gets evaluated in landed cost to a**

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storage cost which would be hidden from a landed cost perspective. Therefore, the all-in annualized cost to serve these northern service must be understood through evidence submission and approval by the Board. A similar effect is a concern in Enbridge's EDA but Enbridge has kept more FT capacity thus maintaining a more balanced approach.

2. Guiding Principles

   a. Criteria – **Union speaks of diversity but is not concerned that over 90% of deliveries for Union South originate at Dawn – what criteria does Union have for path diversity in the winter? What does SENDOUT use as constraints?**

   b. **As mentioned objectives, the total costs of feeding delivery areas must be understood as opposed to landed costs.**

   c. Inherent risks – **an aspect of economic prudency is accessing supply at source and supply closer to market minimizing exposure to unforeseen circumstances and the potential for stranded assets. Said differently, if a utility sources all gas in the supply field, unforeseen circumstances and market evolution may make that decision uneconomic (e.g., Alliance). Buying a portion of the portfolio to the delivery or market area allows the utility to balance its portfolio and take advantage of the market working to reduce costs. It is accepted that this approach could result in some higher costs of gas in some circumstances. However, so does buying the gas by choosing what is believed to be the better path in the short term and accepting a longer term contract with its inherent risks.**

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3. Planning Horizon

While the LDC's run a 5 year model of SENDOUT, the output is not in front of the Board as evidence nor for approval. Other jurisdictions require that output reports are required to demonstrate robust analytics around alternatives[19]. SENDOUT can generate summary reports to demonstrate the efficacy of proposed portfolio approaches relative to alternatives.

4. Current and Future Trends (short/long term) Influencing Gas Supply Planning

With substantial increases in supply available to the market, the market is supply driven. This evolution should be recognized in the utilities plans reflecting a balance in gas purchased in the market as opposed to all at source. Buying all gas at source is not a balanced risk-managed position. In fact, it can lead to higher costs of excess underutilized capacity which can be optimized for shareholder benefit and some level of consumer cost mitigation.

Changes in the location of supply source primarily driven by Appalachian gas have resulted in many pipelines in Northeast North America by becoming bi-directional [20]. The LDC's ought to be required to demonstrate why increasing supply from these sources should not be a growing part of their respective portfolios. We appreciate Enbridge's positive step in that direction with significant commitment to Niagara delivery and we would encourage further consideration of Iroquois.

[19] THE STATE OF NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION, DG 14-380, LIBERTY UTILITIES (ENERGYNORTH NATURAL GAS) CORP. d/b/a LIBERTY UTILITIES, Petition for Approval of Long-term Firm Transportation Agreement, 2015-05-08 Testimony of Chattopadhyay Attachment PKC-1

[20] EB-2015-0238 FRPO Presentation, 32% of US Northeast pipe capacity to be bi-directional by 2017, Source EIA

On the other hand, Union continues to maintain only a small commitment to Niagara. Among Union's stated reasons for not increasing commitments at Niagara was the lack of incremental capacity from Niagara[21]. However, TCPL presented its expansion plans for the Niagara to Kirkwall line showing a low cost solution to add 400 to 500 TJ's per day[22]. In our view, requiring the LDC's to demonstrate a thorough evaluation of alternatives in its long term plans will reduce the risk of the Board approving another long term contract without complete information.

5. Gas Supply Planning Inputs

   a. Demand

   Sensitivity analysis for:

   1. **Seasonal load balancing e.g., +/- 10% heating degree days over the winter season to simulate supply alternatives.**
   2. **For pipeline constrained areas: apply a band of a sensitivity of around growth projections to ensure security of supply while considering alternative solutions (e.g., market based service, targeted DSM).**

   b. supply

   Constraints added to the SENDOUIT model to balance commodity purchased in supply field vs. amount bought in the market area.

   c. Transportation

   Seek and analyze pricing for market based solution alternatives.

[21] EB-2015-0166/0175 Transcript Volume 1, Technical Conference, September 8, 2015 page 28 lines 13-21
[22] EB-2015-0237 TCPL Letter and Presentation to the Board submitted January 15, 2016.

d. storage

What analytics has Union done, SENDOUT or otherwise to determine if additional storage beyond excess over average for in-franchise customers?

e. balancing approach for DP customers

Union notes that all load balancing costs are borne by DP customers. What does Union analyze to ensure that some of those costs should not be borne by system gas customers?

6. Gas Supply Planning Outputs

In our view, the key to ensuring the appropriate analyzation of the right balance of gas management solutions is in the effective input of a range of parameters and alternatives complete with the reporting of the results to plan for robust, cost effective solutions. These outputs would report at a summary level on all of the below parameters with cost estimates demonstrating superior solutions at right level of calculated risk.

a. commodity portfolio

b. transportation

c. storage

d. market based solutions

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7. Planning Summary- Risk and Costs

LDC's should be required to demonstrate analysis done on a variety of Sensitivity analysis using summary reports from SENDOUT as outlined above.

8. Review and Approval Process

We recommend the Board require submission of the rolling 5-year gas acquisition strategy complete with summary reports from SENDOUT. These summary reports should include input assumptions, applied constraints and criteria output reports showing the results for the proposed approach and reasonable alternatives complete with sensitivity analysis. In our review, these reports would filed as evidence submitted for testing and Board approval.

9. Execution of the plan - Operations and Risk Management

It is recognized and accepted that market conditions and pipeline developments change over time. As a result, the utilities ought to be free to evolve their plans in the public interest. In changing their gas acquisition strategies, the utility would identify the changes in base assumption and/or constraints that drove the change. Changes in the medium to long term strategy would be filed with the annual rate filing. Changes that have already been implemented would be filed with the deferral account disposition proceeding.

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10. Reporting on Execution

As outlined above, the utilities would report on changes to medium and long term changes to plans as part of the annual rate case evidentiary filing. These changes would be supported by evidence on the drivers associated with the applied for change.

For shorter term changes that happen intra-year as a result of short-term effects, the reporting would occur as part of the annual deferral account disposition proceeding.

All of which is Respectfully Submitted on Behalf of FRPO,

Dwayne R. Quinn
Principal
DR QUINN & ASSOCIATES LTD.

c. Interested Parties - EB-2015-0238
S. Andison - FRPO

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