

Ontario Petroleum Institute Inc.

555 Southdale Road East, Suite 203

London, Ontario N6E 1A2 • Telephone (519) 680-1620

opi@ontariopetroleuminstitute.com • www.ontariopetroleuminstitute.com

Ontario Petroleum Institute Brief

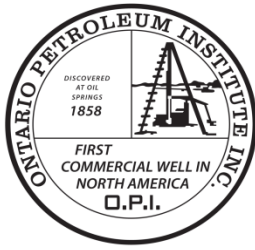
Ontario Energy Board Hearing

EB-2016-0004

Prepared by:

The Ontario Petroleum Institute

for presentation to the Ontario Energy Board



MISSION

Founded in 1963, the Ontario Petroleum Institute Inc. is a non-profit industry association which represents explorationists, producers, contractors, geologists, petroleum engineers and other professionals, individuals or companies directly related to the oil and gas, hydrocarbon storage and solution-mining industries of Ontario.

Fundamental objectives of the Institute are:

To encourage responsible exploration of the oil, gas, hydrocarbon storage and solution-mining industries of Ontario

To maintain close liaison with government agencies which regulate the industry

To disseminate information relevant to member needs

To promote the legislative goals of the membership

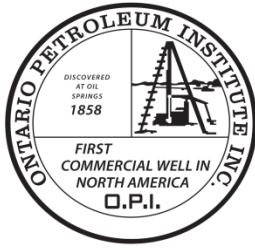
To inform and educate the general public on the significance of the industry to the province of Ontario



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1.0 EXECUTIVE SUMMARY

The Ontario Petroleum Institute (OPI) is the industry association that represents the exploration and production, geologic hydrocarbon storage and solution mining industries in Ontario. The OPI's primary objective is to encourage the responsible development of oil and natural gas.

The OPI is pleased to participate in this hearing of the Ontario Energy Board to consider what mechanisms may be used to recover the costs of expanding natural gas service to Ontario communities that are currently not served. Thank you for providing us this opportunity to address the Ontario Energy Board on this very important matter to our members.

Ontario's historic oil and natural gas industry has been producing energy and contributing the Ontario economy since the first commercial oil well was drilled in Oil Springs in 1858 followed soon thereafter with natural gas in the 1880's.

In recent years, as a result of various factors, there has been a serious decline in production of oil and natural gas in the province: from 1.8 million barrels of oil in 1995 to 400,000 in 2015, and from 16 billion cubic feet of natural gas to 5.5 billion over the same period.

The OPI's current efforts are concentrated on reversing the decline in production, working to inform and educate the Government of Ontario on the oil and natural gas industry with the objective of having the Government support an increase in exploration. As well, we have been promoting Ontario throughout North America as a profitable exploration and development opportunity.

The Ontario cap and trade program is expected to provide the province with significant revenue, estimated to be in the billions, from the sale of cap allowances and penalties. The Government has indicated that the funds will be reinvested in the greening of the economy and supporting renewable energy in the effort to meet established GHGs reduction targets. Ontario's oil and natural gas production can contribute to the "greening of the province's energy supply through its capability to utilize offset credits for the cap and trade program. We would urge the Government to designate funds raised from the program be directed to the Ontario petroleum industry to enhance its ability to contribute to the reduction of GHGs.

The Ontario industry provides energy to the province as a contributor to Achieving Balance-Ontario's Long-Term Energy Plan. We are encouraged in our discussions that the Government supports the development a sector strategy to support our industry's future contributions to the province's long-term energy supply.

The OPI has been in discussions with the Governments of Ontario on its program to extend access to natural gas to underserved communities in the province. It has been recognized that the Ontario industry has companies with the experience and expertise to develop this program. Our companies' ability to participate in this program on a level competitive playing field is extremely important.

An Ontario producer driven program adds value to the economy, create jobs by using local resources and provides efficiencies by integrating local production with local storage, transmission and distribution, with an equitable distribution of revenue. Most importantly the industry could significantly reduce greenhouse gases and efficiently integrate renewable sources of natural gas.

The Government of Ontario's program to extend access to natural gas to underserved communities represents a sustainable economic development opportunity to:

- support local exploration and production of natural gas
- establish a price for natural gas that reflects local market value
- reduce Ontario dependence on imported natural gas
- reduce Ontario's carbon footprint
- enable Ontario producers to design, construct and fund the cost of systems related to the sale of locally produced natural gas in collaboration with transmitters or distributors
- support a commitment to Ontario producers' providing 2% of the province yearly supply of natural gas.

The OPI sees this opportunity as a significant step to turning around our declining production. It enables Ontario to harvest its natural resources, stimulate economic development and be a responsible steward of the environment.

2.0 ONTARIO—A HISTORY OF COMMERCIAL NATURAL GAS PRODUCTION

Since the 1880's Ontario commercial producers in Southwestern Ontario, have been supplying natural gas, originally a by-product of oil production, as a source of energy for power generation and heating. The experience and expertise obtained from these early beginnings provided the foundation for exploration and production activity worldwide.

Production has evolved with Southwestern Ontario being the centre of natural gas distribution in the region. One of North America's largest underground natural gas storage areas and one of North America's major natural gas trading hubs is located in Dawn Township. This hub has traditionally supplied consumer needs for Central Canada and the Northeastern United States.

Ontario is endowed with abundant natural gas resources. It's generally accepted that 50% of the potentially recoverable natural gas remains to be developed. The Province currently imports the majority of its energy supply for power and transportation. Increasing this supply from the province's own natural resources enhances the security of that supply, and contributes to the economic well-being through the jobs created and the services and supplies purchased in towns, cities and municipalities across Ontario. Equally important, provincially produced natural gas supports the stewardship of the environment by reducing Ontario's carbon footprint by the amount of imported natural gas transported from Western Canada and the Northeastern United States.

The long-term potential of the natural gas resources in the province is significant and opportunities remain to develop the province's established reserves with further exploration. In addition, estimates of potential undiscovered natural gas reserves stand at about 0.55 trillion cubic feet and would substantially increase the province's potential for natural gas production.

3.0 ONTARIO NATURAL GAS INDUSTRY IN 2016

The Ontario natural gas industry has made a significant contribution to Ontario's economy, especially in Southwestern Ontario, on land as well as offshore in Lake Erie, supplying consumer's energy needs.

The OPI believes that natural gas is an important component to the success of the Government of Ontario's development of renewable energy. It is recognized that the use natural gas to generate electrical power provides primary support to ensure the success of Ontario's renewable energy program. The Intergovernmental Panel on Climate Change has stated that the use natural gas will be a significant contributor to meeting the world's targets for green-house-gas emissions (GHGs) reductions in the coming decades.

The 50% of all potentially recoverable natural gas located in Southwestern Ontario reservoirs that remains to be developed represents 1.45 trillion cubic feet. This means that Ontario could contribute approximately 18% of the province's yearly natural gas requirements, 18 billion cubic feet, for the balance of this century. However, recovering this potential will require a significant financial investment for exploration and development.

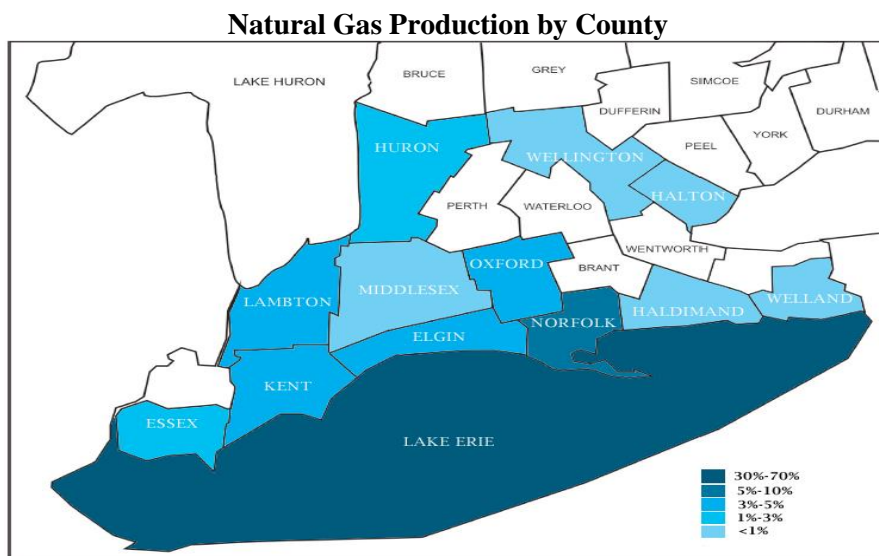
Producers need a competitive market in which to sell and receive maximum returns. A commitment from the Government of Ontario for our industry to contribute a targeted volume of natural gas to the province's long-term energy plan at a reasonable price is an important first step. In addition, other incentive programs developed around the long-term plan such as local market value and extending natural gas services to rural areas are also critical to helping Ontario become more competitive.

Ontario Natural Gas Production in Ontario

In 2015 there were 1,221 active wells producing natural gas in Southwestern Ontario. A significant portion are located in Lake Erie.

The value of natural gas production and storage in Ontario in 2015:

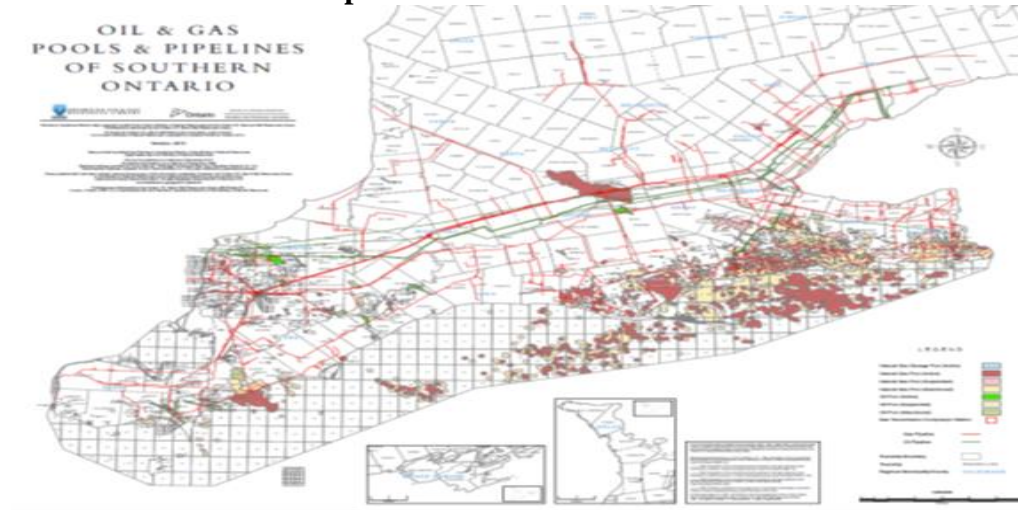
- 1,221 wells produced 155,746 10³m³ (5.5 billion cubic feet) of natural gas



The 2016 estimated value of the oil and natural gas sector to the Ontario economy is \$4 billion.

The Ontario Ministry of Natural Resources and Forestry (OMNRF) regulates the industry through the Oil, Gas, and Salt Resources Act, Regulation 245/97 and the Provincial Operating Standards, which are designed to ensure safe operations, protect the environment and the general public to ensure the safe extraction of Ontario's oil and natural gas resources.

Pipelines of Southern Ontario



Storage

Ontario has geologic storage in over 400 wells for natural gas and hydrocarbons. It is a significant and valuable asset of the energy industry not only for Ontario but also for Canada and North America. Southwestern Ontario has one of the largest natural gas geologic storage areas and trading hubs in North America with 285 wells storing natural gas for transmission and distribution to Central and Eastern Canada and the Northeastern United States.

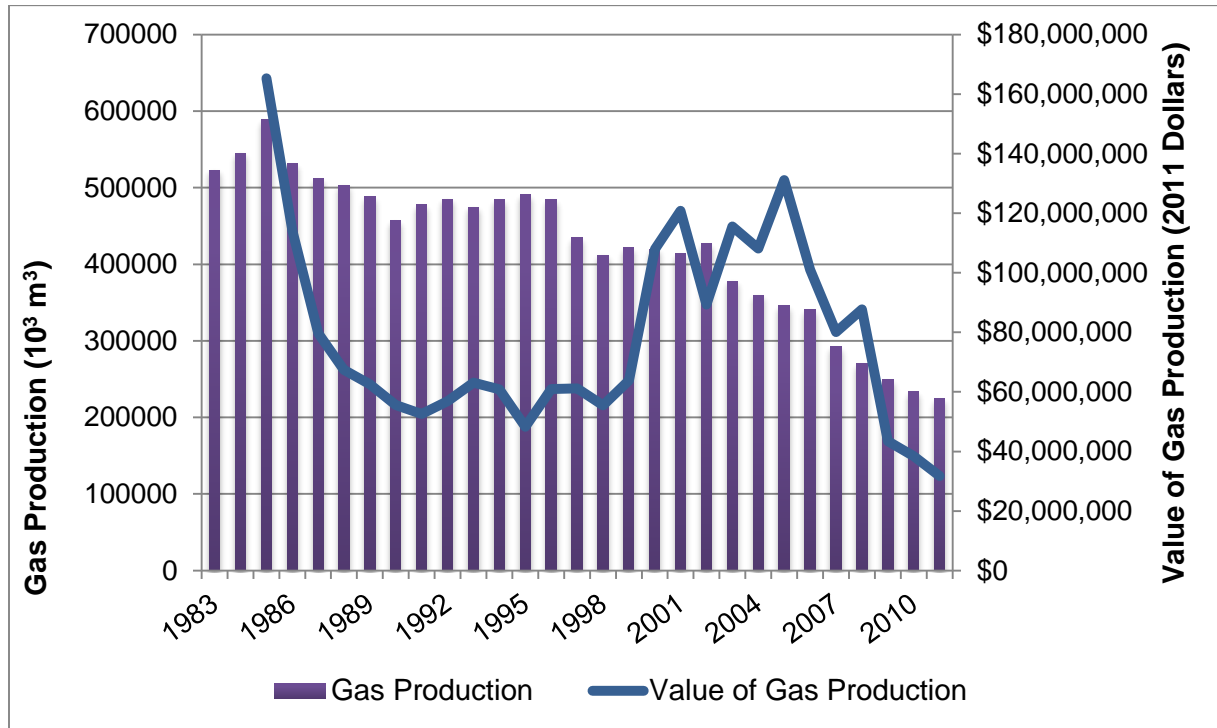
Ontario Natural Gas Storage

Operator	County	Wells	Working Capacity at Delta Pressure (million m ³)
Union Gas	Lambton	151	4,210.9
Enbridge Energy Distribution	Lambton/Well and/Kent	119	2,840.8
Sarnia Airport Storage Pool	Lambton	5	149.0
Market Hub Partners	Lambton	2	31.6
Huron Tippery Limited Partners	Huron	9	84.7

4.0 MARKET

The market for natural gas produced in Ontario has traditionally been the Province of Ontario with our Producers supplying less than 1% of the required supply. The balance is imported by pipeline from Western Canada and the United States stored, sold and distributed by Enbridge and Union Gas.

Natural Gas Production in Ontario: 1983-2011



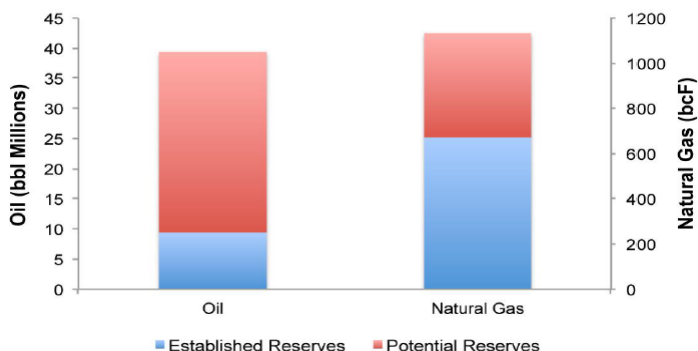
- 6,900 million m³ (244.5 billion cubic feet) of natural gas storage = \$1 billion in value
- 3.5 million m³ of liquid hydrocarbon storage capacity = ± \$2 billion in value

5.0 ONTARIO NATURAL GAS INDUSTRY BEYOND 2016

5.1 Future Exploration and Production

Ontario currently imports the majority of its energy supply for power and transportation. Increasing this supply from the province’s own natural resources enhances the security of that supply and contributes to the economic well-being through the jobs created and the services and supplies purchased in towns, cities and municipalities across Ontario and contributes to Ontario’s environmental commitment by reducing the amount of natural gas that must be transported from Western Canada or the Northeastern United States.

Established and Potential Reserves of Oil and Natural Gas

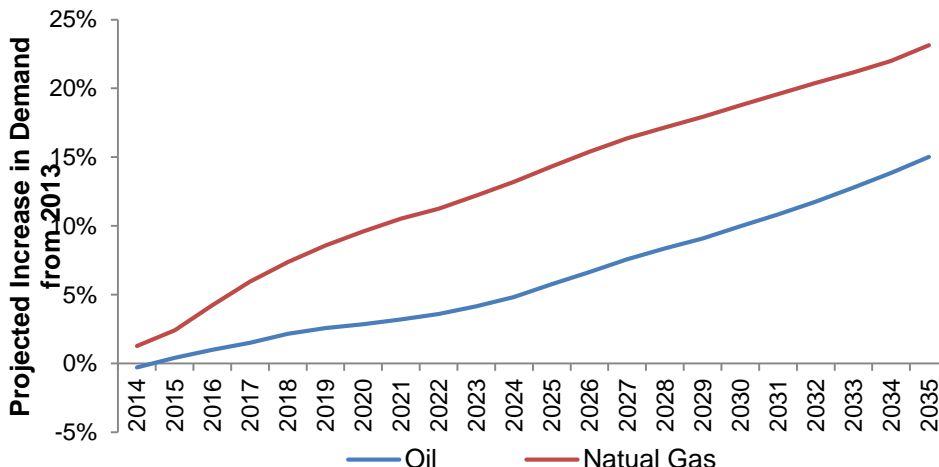


Source: Ontario Oil, Gas, & Salt Resources Library; Bailey and Cochrane (1984)

The development of unconventional resources, which has progressed rapidly in the northeast United States, has yet to be introduced into Ontario. Equivalent targets of organic-rich facies including the Georgian Bay–Blue Mountain Formation that have been explored and/or exploited in other jurisdictions remain unevaluated in Ontario.

5.2 Market Opportunities

Ontario represents a significant market for natural gas



Economic Profile of the Ontario Oil, Gas, and Salt Resources Industry, Richard Ivey School of Business, Western University, March 2014

6.0 ONTARIO ECONOMY

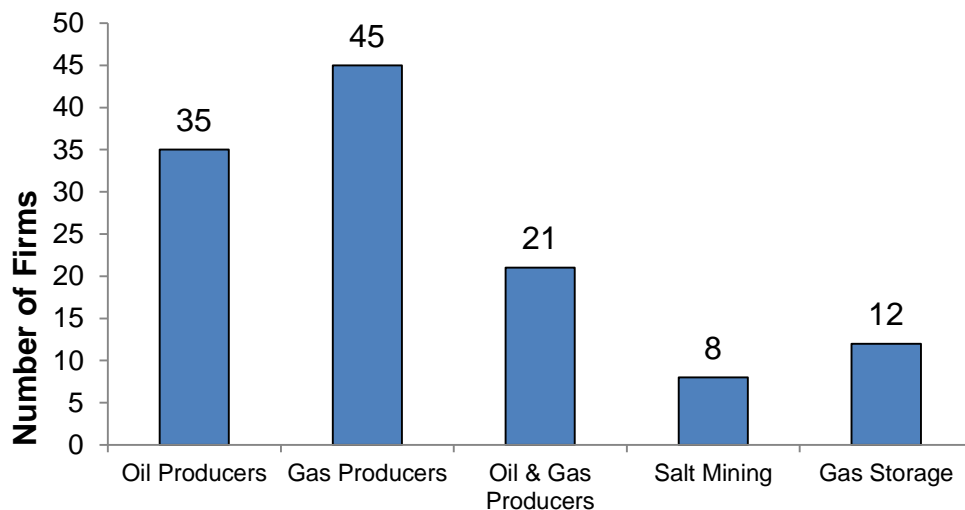
6.1 Viable Contributor to the Ontario Economy

The Ontario natural gas industry has made a significant contribution to Ontario's economy, especially in Southwestern Ontario. Since the beginning an estimated 50,000 oil and natural gas wells have been drilled on land as well as offshore in Lake Erie. Today the impact of this contribution to the energy needs of a significant number of Canadian consumers is realized in many ways:

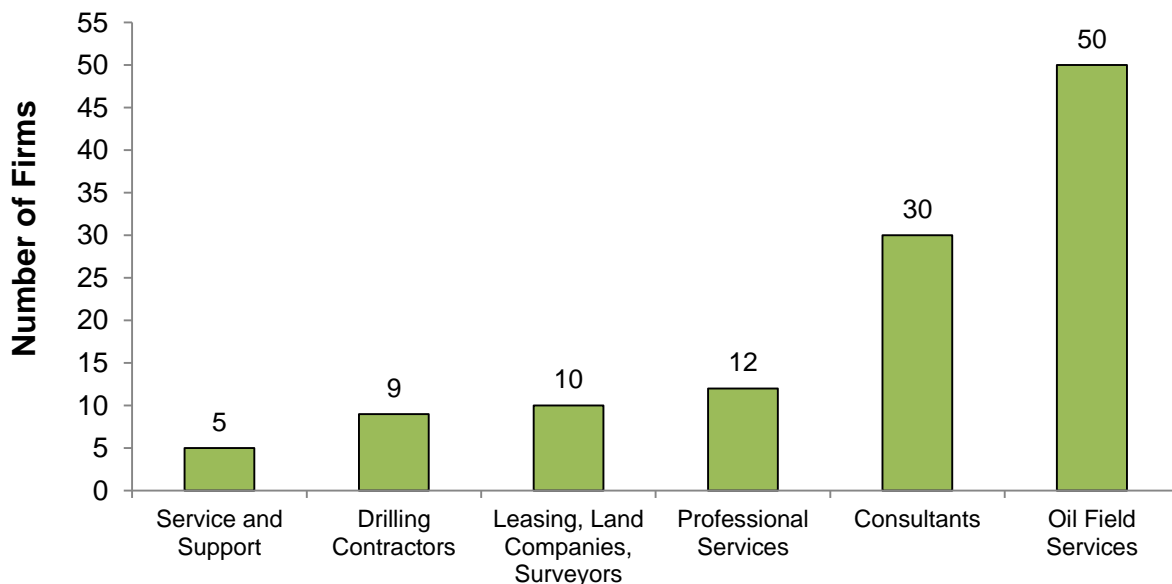
- Natural gas and oil exploration and production
- Natural gas underground storage
- Hydrocarbon underground storage in geologic formations associated with the petrochemical industry

Oil and Natural Gas Industry's Contribution to the Ontario economy:

In 2015 – Ontario companies' produced 400,000 barrels of oil and 4.6 billion cubic feet of natural gas valued at \$77 million with 700 full-time employees and an additional 3800 employed indirectly through support services:



These producers are supported by drilling contractors, well and oilfield services, geologists and engineers as well as a range of professional consulting services:



7.0 EXTENDING ACCESS TO NATURAL GAS TO UNDERSERVICED ONTARIO COMMUNITIES

The Ontario Petroleum Institute has reviewed the Government of Ontario's Program to Extend Access to Natural Gas to Underserviced Ontario Communities and the Ontario Energy Board Notice regarding this hearing EB-2016-0004. Our specific responses to the Board's Issues List is found in Appendix 1.

The OPI provides the following reasons and rationale in support of a program to extend access to natural gas to underserviced Ontario communities:

(1) Extending access is in the interest of Ontario and its Natural Gas Producers

The OPI's interest in the project is in support of the companies that commercially explore, develop and produce natural gas in Ontario. Commercial producers have been safely and responsibly supplying natural gas to consumers since the 1880's and, as such, the industry is an integral part of the Ontario economy.

To remain viable contributors to the Ontario economy the producers' ability to market its current and future production is an important priority. Producers need a competitive market in which to sell. The low price of natural gas has impeded exploration, a significant factor in the declining production the sector had experienced. The Government of Ontario's program to extend access to natural gas offers our member companies an opportunity to receive financial support to stimulate exploration. Further, by including the program as part of Ontario's renewable energy initiative that would also include a price incentive for provincially produced natural gas.

(2) Extending access will have a direct effect on the Ontario natural gas industry

It would open up a market to Ontario producers to explore, produce, store and distribute natural gas to communities by providing access to markets not currently served. The industry has companies with the experience and expertise to develop this program. The extending of access to natural gas underserviced communities represents what can be an integral part of a long-term sector strategic to plan for an increase in exploration and production of Ontario's natural resources.

Equally important, the program will stimulate natural gas exploration in the newly serviced areas since a viable market access point will now exist. Successful exploration will help stabilize the natural gas supplies in the local area, with the natural gas reservoirs providing local load balancing of the upstream utility systems required to service these expanded loads. Production into a new local system can be converted to local load balancing natural gas storage pools after primary production has declined to ensure higher annual load factors on the upstream utility transmission systems.

(3) Extending access will generate strong economic benefits for Ontario communities

Extending access to natural gas to underserviced communities will enhance Ontario prosperity by providing energy cost incentives for businesses and industry to expand or relocate to those now-serviced areas thereby increasing local economic activity, creating employment, and generating municipal tax revenue. The natural gas exploration and production activities will be supported by local businesses, with production royalties paid to local landowners who will further invest in their farm activities.

(4) Producers have responsibility for the health and safety of communities in the exploration, production, storage and distribution of natural gas

OPI member Producers have been safely exploring, producing and storing natural gas for decades. The OPI fully expects Producers to meet their responsibilities and commitment to providing products and services to the highest standards to ensure the health and safety of the communities being served.

8.0 SUMMARY CONCLUSION

The OPI's primary objective is to encourage the responsible exploration, production and geological storage of oil and natural gas. It is estimated that 50% of all the potentially recoverable natural gas located in southwestern Ontario reservoirs remains to be developed. Recovering this potential will require a significant financial investment for exploration and development.

To remain viable contributors to the Ontario economy the producers' ability to market its current and future production is an important priority. Producers' need a competitive market and a level playing field in which to operate.

The program to extend natural gas to underserved communities would enable Ontario companies to develop the province's natural resources through increased production for the benefit of Ontario citizens. As an economic development initiative it sustains a long-standing industry, provides local economic activity, and has an important environmental impact in that it reduces green-house-gas emissions resulting from less imported natural gas.

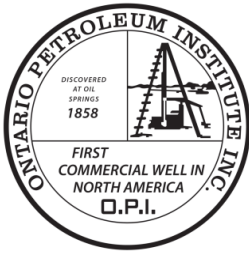
However, the Ontario industry's ability to participate in the program may be jeopardized by the competitive advantages that utility companies have if they are allowed to transfer the cost of their involvement in the program to their current rate base. It is the opinion of the OPI that if the utilities are allowed to transfer these costs it will make it virtually impossible for any Ontario natural gas exploration companies to participate in the program.

For Ontario's industry to contribute to Ontario's long-term energy plan and to effectively and efficiently service communities throughout the province the OPI recommends that the Ontario Energy Board in its deliberations consider what mechanisms may be used to recover the costs of expanding natural gas service to Ontario communities that are currently not served by considering the following:

- 1) Encourage and support local exploration and production to reduce Ontario dependence on imported natural gas and help reduce Ontario's carbon footprint.
- 2) Establish the price for natural gas that reflects the market value of the commodity in the local market free of any deemed transportation or in-direct administrative costs currently assessed
- 3) Support of a target volume that places a premium on acquiring and distributing locally produced natural gas representing 2% of the natural gas consumed in the province in 2015 and year after year thereafter.
- 4) Enable Ontario producers to design, construct and fund the cost of meter stations in collaboration with Ontario transmitters or distributors.

5) Provide the Ontario exploration and production industry with reasonable access to the new markets, associated pipelines and pricing that reflects the value of locally produced natural gas to the province and to the local customers and communities.

Ontario has been successfully producing energy since 1858. The industry wants to collaborate with all its stakeholders to revitalize the sector to supply energy, create jobs and contribute to Ontario's economic growth.



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Appendix 1

OPI Response to Issues List EB-2016-0004

1. What is considered a community in the context of this proceeding?

A “community” from a rural expansion prospective should include any group of homeowners, farmers, or businesses not currently served by a natural gas utility. There are many landowners located within municipalities in Southwestern Ontario where a utility has been granted a Municipal Franchise yet has not constructed the necessary infrastructure to service all customers within that municipality.

2. Does the OEB have the legal authority to establish a framework whereby the customers of one utility subsidize the expansion undertaken by another distributor into communities that do not have natural gas service?

It is the Ontario Petroleum Institute’s (OPI)’s opinion that the OEB has the legal authority to establish this framework in accordance with the guiding objectives for natural gas under the OEB Act and in particular to facilitate the rational expansion of the transmission and distribution facilities.

3. Based on a premise that the OEB has the legal authority described in Issue #2, what are the merits of this approach? How should these contributions be treated for ratemaking purposes?

The OPI disagrees with the concept of having one utility’s customer base directly subsidize the expansion of another utility’s system to service communities that do not have access to natural gas service. However, the OPI would support the creation of a fund that is comprised contributions from a large number of existing customers that can then be applied to a number of projects that are uneconomic according to the current tests that the OEB applies. These funds, and the facilities that they support, should be treated as an aid-to-construction toward the project and would not be included in any utility’s rate base that accesses these funds.

4. Should the OEB consider exemptions or changes to the EBO 188 guidelines for rural, remote and First Nation community expansion projects?

a) Should the OEB consider projects that have a portfolio profitability index (PI) less than 1.0 and individual projects within a portfolio that have a PI lower than 0.8?

OPI suggests that if expansion into communities that are currently not serviced is a priority, then it is reasonable to develop a fund administered by the OEB or a third party designated by the OEB to oversee it. The OEB would ensure an equitable distribution among the proponent utilities. The fund should have contributions from all existing Ontario natural gas customers available to service providers and it should be allocated according to the merits of each proposal.

A rate of \$2.00 per residential and small commercial customer per month would seem like a reasonable level of contribution.

This suggests that a Profitability Index (PI) of 1.0 would be required for each project and any projects that do not achieve a PI of 1.0 would be allowed to access the fund to reach a PI of 1.0. Such access would be granted on a case-by-case basis and tested by the Board to weigh the value of each project relative to the others that are in the pool. The key criterion would be that those projects with higher PI's and requiring less resources would receive preference. The Board may use its discretion to apply non-economic criteria to determine which projects are funded as well as the composition of the loan and grant components.

The OPI suggests that the fund should be similar to the Government of Ontario grant and loan program of \$230 million. The terms of the loan program should be interest rate free and the amortization period to parallel the expected life of the pipeline asset (i.e. 50 years).

b) What costs should be included in the economic assessment for providing natural gas service to communities and how are they to be determined and calculated.

All costs associated with serving each project should be included in the economic assessment. This would include costs for market assessments, engineering design, upstream reinforcement required by the transmitter to serve the new load, distribution mains, service networks including all stations and other appurtenances, connections, operating costs of the system, regulatory, legal and compliance fees, and the cost of a customer conversion assistance program if required.

These costs should be determined using a model that calculates the required yearly revenue using the existing rates of the service provider (or new rates for a new service provider) as the base. An allowance for increases to account for the additional cost the project would incur for supplemental financing annually until the project loan is fully retired. The goal is to reach a positive contribution margin for the project at the end of the customer capture forecast period. For small projects this may be a period of two to three years and for larger projects a period of 10 years or more may be required.

A critical element that requires addressing is the ability of an integrated utility providing transmission, storage and distribution services to compete for these funds. It is OPI's opinion that such an entity has significant ability to orchestrate its need for upstream reinforcement by manipulating the lines between transmission and distribution systems and the associated transmission costs as either project specific or general system reinforcement. All distribution projects should be required to compete equally and be subject to consistent and timely information from the transmitter.

c) What, if any, amendments to the EBO 188 and EBO 134 guidelines would be required as a result of the inclusion of any costs identified above?

The individual project PI of .85 would be eliminated as would the rolling portfolio PI of 1.0 and each project would have a PI of 1.0. This could be achieved through the project proponent accessing the fund noted in Issue # 3 above and/or it could be "lowered" with "at risk" capital from the project proponent, contributions from the municipality or new customers, or a combination of these funding elements.

d) What would be the criteria for the projects/communities that would be eligible for such exemptions? What, if any, other public interest factors should be included as part of this criteria? How are they to be determined?

The OPI disagrees with the prevailing thinking in Ontario that large natural gas utilities are the only entities capable of distributing natural gas to new communities. The utilities cite such factors such as the size, experience, ability to respond to abnormal events and overall competence, generally suggest that only they are capable of providing those services. Yes, but at what cost to the ratepayer?

OPI suggests that its members not only have the capability to provide these services more economically but have been doing so for some time. As well, the Government of Ontario has recognized that Ontario has companies with the experience and expertise to develop a program to extend access to natural gas underserved communities. The program represents what can be an integral part of a long-term sector strategic plan for an increase in exploration and production of the province's natural resources.

Ontario has excellent oversight of these services through legislation and the regulatory regimes of the OEB, Ontario Ministry of Natural Resources and Forestry and the Technical Standards & Safety Authority of Ontario. Competition to develop these projects should be promoted with all proponents committing to legislative and regulatory compliance.

The OPI refutes claims from entities stating that local production and storage does not meet security standards. Local storage helps to minimize the size of the transmission and distribution mains required to serve a distribution system. It also boosts the load factor of the existing pipelines by leveling off the delivery requirements between summer and winter.

Further, local production contributes to reducing the environmental footprint of the natural gas that is consumed in Ontario by avoiding the green-house-gas (GHGs) emissions from importing natural gas throughout North America. Local production and storage should be promoted as a reliable and secure source of energy supply in the planning of any distribution system operation.

e) Should there be exemptions to certain costs being included in the economic assessment for providing natural gas service to communities that are not served? If so, what are those exemptions and how should the OEB consider them in assessing to approve specific community expansion projects?

OPI believes that all of the project costs should be accounted for each application and no costs should be excluded. Please see the response to Issue #4(b).

f) Should the economic, environmental and public interest components in not expanding natural gas service to a specific community be considered? If so how?

OPI agrees that the benefit of providing natural gas to a community should be considered in light of the costs of continuing with its current energy supply. In establishing a fund to contribute to projects a comparative analysis of the current versus the proposed energy supply should be completed to determine a project's merit. The costs can be quantified and the net present value of the benefit between continuing the current situation versus the new energy supply should be a strong indicator of the value of this project relative to the others under consideration.

The higher the “energy density” of the new project the more benefit it attributes. This value component would be a way to factor in the number of new natural gas customers, their relative energy usage, and the type of energy that’s displaced. For example, a project with 300 new residential customers displacing propane that is currently supplied via truck by a local supplier may have a lesser value than a project that would have 5,000 new customers in a more remote location where the majority are residential and small commercial customers using #2 fuel oil but they have an industrial anchor load even though the overall capital cost of the latter may be significantly more. (?)

5. Should the OEB allow natural gas distributors to establish surcharges from customers of new communities to improve the feasibility of potential community expansion projects? If so, what approaches are appropriate and over what period of time?

OPI would view this as one mechanism for the required contribution from the fund to be “bought down” by the proponent to improve the project in the pool being considered. If a community values natural gas service and is willing to contribute to the project then that commitment should be valued by all parties.

Community contributions can be made in many forms ranging from the municipality making a contribution on behalf of the community to the individual customers who benefit from the service. The duration of the contribution should be on a case-by-case basis allowing communities and groups to make decisions about the form of the contribution with the goal of moving the project higher up in the pool of projects being considered. This mechanism should not be restricted to existing natural gas distributors but should be available to all project proponents.

6. Are there other ratemaking or rate recovery approaches that the OEB should consider?

There are undoubtedly other approaches that can be employed. The OPI’s suggestions are in the spirit of supporting competition between proponents and projects. Regardless of the approach adopted we encourage the OEB to strive to approve the best cost alternative for any individual project.

7. Should the OEB allow for the recovery of the revenue requirement associated with community expansion costs in rates that are outside the OEB approved incentive ratemaking framework prior to the end of any incentive regulation plan term once the assets are used and useful?

No, the OPI believes that the OEB should retain rate approval on expansion costs with complete control over all aspects of fees charged to ratepayers.

8. Should the OEB consider imposing conditions or making other changes to Municipal Franchise Agreements and Certificates of Public Convenience and Necessity to reduce barriers to natural gas expansion? Should the Municipal Franchise Agreement approval process be accompanied by a selection process? Who should conduct the process and what should the selection criteria be? How would the needs of large users be considered? Submissions on the current purpose and use of the Municipal Franchise Agreement would also be of assistance.

The Municipal Franchise Agreements and Certificates of Public Convenience and Necessity present barriers to the creation of rural co-ops or other mechanisms where rural landowners could install low pressure pipeline systems to provide natural gas service outside of the utility’s serviced corridor in the municipality. The OPI and its members could work within these rural areas to assist the landowner co-ops to design, install, and operate these small systems.

Natural gas wells within these underserved municipalities could be tied into these low pressure pipeline systems to augment natural gas from the utility main lines and would provide an outlet for natural gas production from low volume gas wells that are uneconomical to tie-in to the higher pressure utility lines.

The OEB should allow multiple municipal franchises in common municipal boundaries to acknowledge the spread-out nature of residences, farms, and businesses within many municipalities. Multiple franchisees would allow for the creation of natural gas co-ops to service underserved areas, or would allow a natural gas producer to service customers close to their natural gas well if those customers are not served by the utility with the Franchise Agreement for that municipality.

Depending upon the size of the co-op system and range of customers, a local natural gas producer could use their natural gas well as a quasi-storage system, storing in the wellbore to augment the flow capabilities over a short period of time. For larger co-op type systems, a natural gas company could also use its natural gas reservoir as a load balancing mechanism for the local system, minimizing any supply capacity restraints on the utility's transmission system to the area.

OPI believes that the OEB should retain the current interpretation that allows for multiple franchise agreements within one municipality to encourage the greatest level of economic expansion within a given municipality with the view of acknowledging the dispersed nature of residences, farms, and businesses within many rural communities.

The Municipal Franchise Agreement process includes an obligation to serve. With multiple overlapping franchises, each franchise holder will accept an obligation to serve for those customers using that franchisee's facilities. Providing that each franchisee applicant can demonstrate sufficient depth and timing/availability of supply to meet the obligation to serve, that applicant should be approved under the selection process. The OEB is the logical agency to oversee and vet the obligation to serve portion of the franchise approval. A new overlapping franchise applicant would only be able to sign up end use customers to the level of gas supply that can be provided by that applicant. Without sufficient depth of supply, the overlapping applicant would not likely meet the obligation to serve requirements to service large end users.

9. What types of processes could be implemented to facilitate the introduction of new entrants to provide service to communities that do not have access to natural gas. What are the merits of these processes and what are the existing barriers to implementation? (E.g. Issuance of Request for Proposals to enter into franchise agreements).

Barriers that do not allow multiple natural gas distributors in a municipality need to be removed. By allowing multiple distributors, co-ops or small natural gas producer-fed systems could be constructed.

Over time as these distribution systems expand, a seamless gas distribution system will evolve, with rate payers in the municipality paying rates to the distributor who first supplied gas service to them.

The OPI supports competition for franchises and requests for proposals (RFPs) are one way to judge the relative value of each proponent. However, the RFP process should be standardized, fair and include a letter of intent by each responder to provide service within a specified period of time at the specified cost noted in the RFP.

The intent would be to ensure that each proponent conducts a consistent level of analysis and design prior to the submission of their response to the RFP and that the decision to award the franchise is based on the objective results of a standardized criterion function-type analysis and not on some promise that the proponent will carry out additional analyses in the future if they are selected that may or may not result in servicing that municipality.

The OPI also supports the current protocol that multiple franchise agreements can be awarded within one municipality.

10. How will the Ontario Government's proposed cap and trade program impact an alternative framework that the OEB may establish to facilitate the provision of natural gas services in communities that do not currently have access? How the disbursement of these funds might relate to the OEB's approval of expansions. The OEB recognizes that ultimately the government will decide how this money is best used, but the OEB would like to hear the parties' views on the optimal use of these funds.

The OEB needs to provide cap and trade incentives to local customers who contract for local natural gas supplies. By contracting for locally produced natural gas significant carbon emissions are eliminated. The reduced carbon tax imposed on rate payers consuming local production would allow natural gas producers to receive a premium on their production simply because it is so close to the end user.

The displacement of fuels with higher GHGs is a factor in determining the value of a project. The higher the displacement the more credit should be given to that project with the value quantified by referencing the Ontario cap and trade program.

As noted in Issue #3(d) above, local production and storage should be included in the GHG benefit assessment. The value of the local production and storage should be reflected by giving the producer the cost of the natural gas paid by the local customer less the cost of accepting and transporting this natural gas to the nearest user. In Union's case, the deemed cost of transporting this natural gas to and from their Dawn Hub should be abandoned in favour of promoting a more realistic and environmentally friendly alternative at a price that promotes local exploration and production.

The OEB approvals for expansion need to consider the environmental benefits of local production/local storage. By encouraging the use of local production to supply local demand and by using local gas pools to load-balance local distribution systems, the environmental footprint of the life cycle emissions are reduced. Local load balancing will minimize the need for large upstream reinforcement capital projects when expanding natural gas service.

Local producers or gas pool owners could be encouraged to supply local consumers and/or load balance local distribution systems through subsidies for initial system construction via the government's rural gasification program, and through Cap and Trade credits issued either to the natural gas end user via credits or to the natural gas producer via a surcharge to the price received for the local natural gas produced.

11. What is the impact of the Ontario Government's proposed cap and trade program on the estimated savings to switch from other alternative fuels to natural gas and the resulting impact on conversion rates?

Once total carbon pricing has been imposed on alternative fuels, the landed price will increase significantly. As discussed in 10) above, locally produced natural gas should receive additional carbon credits since minimal fuel and transmission is required to reach the end user. As well, locally produced natural gas does not require high volume hydraulic fracturing for extraction.

12 .How should the OEB incorporate the Ontario Government's recently announced loan and grant programs into the economic feasibility analysis?

See Issue #4(a) above. The existing \$230 million Government Ontario loan and grant fund should be rolled into the OEB fund suggested.