INTRODUCTION & CONTEXT

The Gas Supply Framework was created by the Board through increasing awareness of the importance of this aspect of the utility decision-making. In the early stages of the process, the OEB set out importance of comparing and contrasting the two utilities plans[1]. In the short term, comparing and contrasting the historic programs can be useful in developing an optimal blend of the better gas supply strategies as the utility brings the contract rights and assets of the utilities together.

However, with the merger of the utilities, some parties questioned the efficacy of the gas supply review. We believe that the review is even more important as EGI (or "the Company") has an effective monopoly position on gas moving in and throughout the province. We respectfully submit that the Board, in its role, needs to consider that the utility holds ratepayers' proxy on gas supply decisions which directly affect ratepayer costs. The role of the Board in these matters is to oversee decisions which balance market efficiency while recognizing the utility's decisions can also contribute to the parent company profitability. In our view, this merger creates a need for the Board receive enhanced information and data to ensure that Board approvals are informed by facts and not just qualitative statements that cannot be tested.

For the purposes of clarity for the Board, we provide our submissions on Gas Supply Planning, the Review Process and Market Developments impacting decisions of the merged utility that impact customers.

1) GAS SUPPLY PLANNING

a) **Demand Forecast**

The basis for any right-sizing any supply is an effective demand forecast. In our view, it is helpful to consider demand in three components.

i) Peak Day Forecast establishes the maximum single day total of demand by location. One of the utility's primary functions is to ensure that its supply plan can ensure that in conditions that reasonably possible, all firm customers receive their forecasted or contracted daily requirement without pressure conditions that could lead to outages. This supply design is primarily served by physical assets or the contracting of firm physical delivery through counter-parties while establishing peak day design criteria to ensure all firm daily requirements can be met at all locations throughout the franchise.

While the opportunities for considering the efficacy of the respective peak day criteria of the each of the legacy utilities may reap benefit, the major opportunity is in the consideration of contracts held with third parties.

[1] EB-2015-0238, OEB Letter Initiating Consultation, issued October 16, 2015, Scope 3).

Through effective planning, the merged utility can blend and rationalize those contracts for an optimal mix to meet the daily requirements in an economic fashion while maintaining the qualitative factors of diversity, etc. Due to contract terms, this process may take some time but the time to plan it is now (or better yesterday as there were term-up decisions on TCE Energy contracts that were to be submitted in July of 2019). We understand from the presentation by EGI that the respective utility versions of SENDOUT are not combined as of yet[2]. However, by high level prior consideration of geographic deliveries of gas by TCE transportation contracts, preliminary discussions could be entered into with TCE to discuss an effective integration and rationalization of deliveries.

ii) Annual Demand Forecast estimates the total amount of gas needed on a franchise basis under normal weather conditions. Of course, even the normal weather criteria is subjective to errors in estimating so this forecast is going to be incorrect. It is only a case of how much and in which direction.

In our view, this known error in forecasting leads us to two conclusions:

(1) Sensitivity analysis ought to be used to run scenarios and test methodologies. This approach should establish the minimum level contracting based upon a reasonable lower limit of expected consumption.

(2) Flexibility to make discretionary purchases in the market (e.g., Dawn) ought to be part of the utility's plan to manage increases in consumption over the reasonable low limit. This approach enhances the adaptability of the annual supply without the cost of unutilized transport capacity and the cost of UDC while providing diversity in the overall portfolio.

iii) Seasonal Demand Forecast estimates the variability of heat sensitive consumption as a basis for designing the load balancing approach of a utility. This forecast, often estimated as a monthly consumption, has its own level of forecast error which can be managed in large part by discretionary purchases. While the commodity price can climb in extreme cases, a disciplined, forward-looking strategy of managing the level of discretionary purchases using month-end storage targets can reduce the impact of this volatility.[3]

In these two latter aspects of forecasting, we are encouraged to see that the Union portfolio has increased the amount of discretionary purchases at Dawn in its portfolio

[2] Transcript_Consultation_Volume 1_20140923, pages 45-48
[3] FRPO_SUB_NGMR_20141124

over the last few years and Enbridge winter purchases are being managed to forward storage targets.

b) Integrated Resource Planning Opportunities Must be Included

As we outlined above, one of the key aspects of supply planning is daily demand which can be met by physical assets or the contracting of firm physical delivery at that location. For years, Union Gas maintained a significant amount of system supply and direct purchase delivery requirements at Parkway as a means of meeting the daily demand at Parkway. Due to desire to transact at Dawn, some direct purchase and most system supply deliveries have been moved to Dawn increasing the need for Dawn-Parkway facilities. These incremental facilities have been added at approximately double the resulting revenue requirement per unit of capacity as the previously existing Dawn-Parkway system.

In our view, it is incumbent on the utility to provide the most economically effective approach to its monopoly responsibilities. System supply contracted for firm delivery at strategic locations can reduce the investment requirement to build more assets. Diversifying in this manner would reduce the risk that the new assets could be stranded during their lifetime if market evolutions reduce the demand for facilities.

We asked the EGI panel about this at the outset of day 2 and we respect that this wholistic view is not something they were asked to do[4]. That is understandable as this has been the stance of the company in previous proceedings and there is not even understanding of how gas supply meets the system design need.[5] However, the incremental contract analysis in Appendix I of this application shows that Niagara to Kirkwall is actually the lowest cost supply AND it would provide a system benefit at Kirkwall which provide a comparable benefit to deliveries at Parkway. We respectfully submit that the Annual Update to the 5 year plan evidences how EGI will incorporate the material benefits of these opportunities into its path assessment.

c) Legacy Enbridge Gas Storage Needs and Acquisitions Require Greater Scrutiny

Consistent with definitions of the respective types of demand described above, natural gas storage and its attributes provide supply to meet the respective demand requirements differently. Historically, one of the prime functions of storage was to be a buffer or repository to help balance the variability of demand between winter and summer especially in an era when most of the supply was provided by long-haul pipelines. The contracting of the long haul pipelines on a firm basis created a constant flow of gas throughout the year into the market area. With the dramatic difference in

[4] Transcript_Consultation_Volume 2_20140924, pages 1-6.
[5] Transcript_Consultation_Volume 2_20140924, page 4, lines 25-28 to page 5, lines 1-4.

consumption demand between winter and summer, the amount of storage space was generally calculated as a difference between summer and winter demands. In addition, buying gas in the summer for consumption in the winter usually provided economic value as the cost of gas was usually less in the summer.

An aspect of storage that is not often discussed nor as well understood is the value of deliverability rights especially seasonally. Storage deliverability is amount of gas that can be injected into or withdrawn from the storage contract or allocation in one day. This number is often expressed as a percentage of total storage space (e.g., historic standard withdrawal deliverability for allocations or third party contracting is 1.2% of total space). While 1.2% has been Union's historic withdrawal standard for contracting, much higher rates are available from storage and have been used to underpin storage for general service customers for decades.

i) EGD Load-balancing Needs: Over time, EGD has incorporated discretionary purchases at Dawn to manage variability in seasonal demand. We respect that with the robust nature of the Dawn Hub, this is a sound strategy. This approach coupled with the reduction in long-haul contracts results in less space required to manage the difference in summer and winter demand.

   As a result of these factors, we have disagreed with EGD over recent years regarding their forecasted need to increase storage space in their portfolio (currently approximately 30.5 PJ[6] above their own cost-based storage at the former Tecumseh site). We respect that they may have more peakiness (daily demand vs. annual demand) to their winter needs. However, this need can and would be better met with planned winter purchases at Dawn. Beyond being risk mitigation for variances from forecasted weather, these purchases can be used to mitigate commodity risk by purchasing the summer before as the market premium (winter vs. summer price) is usually less than the cost of storage . It is also worth noting that in 2016, EGD contracted for 25.5 PJ[7] or 22.9 Bcf of market-based storage while in 2017 that number increased dramatically to 30.5 PJ[8] or 28.9 Bcf. In our view, these storage additions need to be tested to ensure that landed Dawn supplies would not be more cost effective. We respectfully submit that EGI should demonstrate a need for storage by providing supporting analysis as to why the winter supply need cannot be met through Dawn purchases. This analysis could be provided in the Annual Update.

ii) EGD Acquisition: Whatever the determination is for the appropriate amount of storage, it is unlikely that the cost based storage allocated to EGD from the

[6] EB-2018-0131 Exhibit N1, Tab 1, Schedule 1
[7] EB-2017-0102 Exhibit I.B.EGDI.FRPO.9
[8] EB-2018-0131 Exhibit N1, Tab 1, Schedule 1

historic "Tecumseh" pools will be sufficient. During the Stakeholder Conference, EGI presented that of the 280 Bcf of storage in Ontario, 3 Bcf was contracted by an unaffiliated third party.[9] When asked about it later, EGI clarified that the party was AltaGas that owned the storage but EGI operated it.[10] This issue was inquired about in the merger proceeding and the companies provided that AltaGas had rights to 2.9 Bcf through its 50% ownership in the Sarnia airport pool.[11] But, upon further review, EI does indeed have ownership as the other 50% is in fact owned by Market Hub Partners ("MHP") Canada Ltd. which is wholly owned by Spectra and, ultimately, Enbridge Inc.[12] The logical conclusion of this is that Enbridge Inc. controls all available non-utility storage in Ontario so if EGD is seeking additional market-based storage in Ontario, their parent is involved in providing it and benefits from the transaction. The potential for conflict is obvious.

EGI may suggest that it can contract for more novel approaches[13] to get storage service. But that is rare that, beyond synthetic deals that constitute a summer sell and a winter buy, that the storage contract is not underpinned by physical storage provided by a marketer using the same market-based non-utility storage sold by EI companies. As part of the Settlement Agreement in EGD's 2017 Deferral Accounts, the company produced evidence on the nature of these contracts and the value of physical storage over synthetic.[14] From that information, in summary, only about 20% of its market-based storage purchases were synthetic given the value of physical storage over synthetic. And while it is true that EGD could seek its additional storage requirements from other locations, such as Michigan, when the cost of transport to and from Dawn is included, the economics for that storage cannot compete.[15]

EGI has offered that they have a blind RFP process in place. However, in our view, that process is flawed as, to try to hide the counter-party making the offer, valuable information that is crucial to the decision is not available to the EGI evaluators[16]. This information includes seasonal parameters such as the level of firm deliverability rights in fall and spring which can be crucial to the determining factor[17]. During our discussion at the Stakeholder

[9] Transcript_Consultation_Volume 2_20140924, page 13, lines 16-22
[10] Transcript_Consultation_Volume 2_20140924, page 29, line 24 to pager 30 line 9
[11] EB-2017-0306/0307, Exhibit C.FRPO.6
[12] https://www.enbridge.com/projects-and-infrastructure/gas-storage
[13] Transcript_Consultation_Volume 2_20140924, page 29, lines 17-20
[14] EB-2018-0131 Exhibit N1, Tab 1, Schedule 1
[15] Transcript_Consultation_Volume 2_20140924, pages 24-27
[16] Transcript_Consultation_Volume 2_20140924, pages 35-37
[17] EB-2018-0131 Exhibit N1, Tab 1, Schedule 1. **The Rationale section demonstrates how important parameters change the economics of a storage offer. In what we heard from**

Conference, we chose not to ask more detailed questions out of respect for EGI and the risk that we could compromise the company and any future RFP process.[18] In our experienced view, to evaluate the bids effectively, the company must have better information than the blind RFP offers.

We respectfully submit that the Board has the responsibility and authority to ensure that the load balancing needs of the former EGD territory are secured in an economic fashion as part of the just and reasonable rates of the utility. We had identified this concern as an issue in the Merger proceeding.[19] The Board determined that NGEIR and STAR issues were outside of the scope of the proceeding[20] but these issues are still live and unaddressed. We will provide further concerns below under the STAR section.

2) GAS SUPPLY REVIEW PROCESS

a) <u>Board Needs to be Duly Informed as Basis for Approval</u>

We would like to acknowledge at the outset that we respect that this is the first Distributor 5 Year Gas Supply Plan application and stakeholder conference so both the company and stakeholders have different expectations for the process. However, at the outset of the first day of the stakeholder conference, it was clear that there is a gap in evidence that the company does not believe that it needs to close.[21] We understand that the company believes that all the Board is approving is their process for choosing strategies or tactics and in their view, qualitative. We respectfully submit that the Board must ultimately approve the decisions of the utility based upon evidence and quantitative data not just a framework and qualitative assessments.

We respect that there are grey areas. However, we rely on the Board report that outlined the expectation for the framework. In our view, paramount amongst the Board's expectations was the 5 year plan[22]:

> *The OEB requires the distributors to submit a five-year gas supply plan for review every five years. The OEB believes that five years is an appropriate period for a robust review of the gas supply plans because it allows for an efficient use of resources for all stakeholders. This review will provide the main OEB assessment of the* ***cost consequences*** *using the criteria set out in the Framework. (emphasis added)*

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[18] Transcript_Consultation_Volume 2_20140924, page 36, line 24 to page 37, line 21
[19] EB-2017-0306/0307 FRPO_ARG_EGD UG MERGER_20180615, pg.5-6, section 4.1.3
[20] EB-2017-0306/0307 Decision, pg. 48
[21] Transcript_Consultation_Volume 1_20140923, page 22-31
[22] EB-2017-0129 Report of the Board. Framework for the Assessment of Distributor Gas Supply Plans. Section 4.1

Among other aspects, the Board report states the following outlining the deliverables of the framework[23] (with **emphasis** added):

> • A description of the **costs** associated with the various options considered and how the final option(s) was/were chosen.
>
> • Analysis of the **bill impact** of options considered and how these compare to the chosen option(s), including a description of the considerations used to determining the final solution.
>
> • A description of how the options considered (and chosen) impact **price volatility and predictability** and how the distributor determined **what level of volatility** was deemed acceptable for customers.
>
> • A description of the various options considered to deliver reliable supply to customers and why the final option(s) was/were chosen.
>
> • Analysis of the **cost and bill impact** of options considered and how these reliability options compare to the chosen option(s), including a description of the considerations used to determining the final solution.
>
> • A description of the distributor's approach to balancing reliability and flexibility within a plan and what the **cost** and risk trade-offs are associated with their approach.

In our view, the lack of the emphasized deliverables from the Board's Report highlights the difference between stakeholders expectations and what the company provided. While we are not suggesting the EGI 5 Year Gas Supply Plan needs to be redone, in our respectful submission, the Board ought to clarify its expectation for these missing elements to be provided in the Annual Update on a forecast basis to allow appropriate consideration of these costs and bill impacts. We respectfully submit that the Board ought not be reviewing these cost and bill impacts in the QRAM which does not allow for appropriate discovery and testing.

b) <u>The Framework Should Allow Testing of Alternatives Not Chosen</u>

Another aspect of difference between the company and stakeholders is the testing of alternatives. We understand that the company is suggesting that costs flowing from choices made in the Gas Supply Plan will not necessarily be brought for approval on a forecast basis.[24] It appears that the Company is proposing that these costs would only be considered in a testing of prudency in a deferral account or QRAM application where

[23] EB-2017-0129 Report of the Board. Framework for the Assessment of Distributor Gas Supply Plans. Section 3.1.2.
[24] Transcript_Consultation_Volume 1_20140923, page 23, lines 18-28

the company would present plan vs. actual costs.[25] In our respectful submission, the QRAM is certainly not the proceeding to seek discovery and testing of the issue of prudency. Further, the Company would not be producing evidence about alternatives and costs that were known or forecast at the time of making the choice. Once again, we would respectfully request the Board to provide clarity on the appropriate proceeding or mechanism to provide the testing of the forecasted costs of the alternatives.

c) <u>The Stakeholder Conference for a 5 Year Plan Can be Better Utilized</u>

As this was the first Stakeholder Conference of the Framework, we understand that we are all learning. We submit that the following opportunities for improvement.

i) The timelines could be expanded to provide parties enhanced opportunities to ensure the efficacy of the stakeholder conference. In this case, the presentations were provided only minutes before each day of the conference. This precluded the opportunity to review the presentation in conjunction with submitted questions and areas of interest to allow a focusing of the questions and dialogue in the Conference. Given that this is the presentation of a medium- to long-term plan, more time should be available.
ii) The Company opened each section of its presentation with a scripted delivery. We respect the scripting assists with ensuring a timely delivery of pertinent information to provide a basis for understanding. However, to the extent that the Company desires to communicate effectively, these same scripts could be sent out with the slides in advance of the Stakeholder Conference to allow meaningful preparation allowing a richer dialogue at the Conference.
iii) Supporting analysis should be provided with evidence or at least in advance of the Conference. This would alleviate some of the concerns addressed above regarding lack of forecasted costs, etc.

3) CONSOLIDATION COUPLED WITH MERGER CREATES MARKET POWER

a) <u>It is Time to Review NGEIR with the Evidence of What has Occurred</u>

At the time of the NGEIR proceeding, the Board dealt with the issue of forbearance in the setting of rates for market based storage. Part of its consideration was third party storage developers who created the prospect of storage development if provided the opportunity to charge market based rates. Two of the proponents cited by the Board were Tribute Resources and MHP Canada[26]. In its findings, the Board stated[27]:

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[25] Transcript_Consultation_Volume 1_20140923, page 26, lines 2-5
[26] EB-2005-0551 Natural Gas Electricity Interface Review ("NGEIR"), Decision with Reasons, Nov. 7, 2006, page 52-53
[27] EB-2005-0551 Natural Gas Electricity Interface Review ("NGEIR"), Decision with Reasons, Nov. 7, 2006, page 54

> *The ability to charge market prices in the absence of price regulation will provide a positive investment incentive and, to the extent new third-party storage is developed, this will enhance competition in storage – as well as competition in the market generally. This is in the public interest.*

However, the Ontario storage market has not seen the advancement of competition through investment by third party developers. In fact, as noted above, MHP is a wholly-owned company under Enbridge Inc. Further, after Tribute Resources developed its Tipperary Pool, it sold off 75% to Union Gas in 2009.[28] In 2014, Union sought and received approval from the Board to transfer operations and purchase all remaining shares of Tipperary Gas Corp.[29] With the merger of the two utilities and their market-based storage operations, the transition to monopoly operation of the Ontario storage market was complete.

The Company may rely on the Board's findings that the market area was broader than Ontario[30] but a closer inspection of the "anecdotal evidence" that the Board relied on does not withstand scrutiny based on what we know now a dozen years after the decision. A few examples of that "evidence" were:

i) *GMi's evidence regarding its assessment of alternatives and the growth of the secondary market*

Currently, Energir (formerly GMi) holds storage in two jurisdictions: the province of Quebec (its own franchise) and the province of Ontario.[31]

ii) *the purchases of storage in Michigan and New York by Ontario utilities and marketers*

As noted above, Energir does not hold Michigan nor New York storage in spite of being geographically closer to New York and some its storage fields than the utility is to Dawn. EGI presented its challenges with getting storage from Michigan[32] [33] and EGI does not hold any Michigan storage at this time.[34]

iii) *Enbridge's RFP results included at least response from outside Ontario*

EGI did get at least one response from outside Ontario and it was uneconomic.[35]

[28] https://www.oeb.ca/documents/cases/EB-2007-0837/Dec_Order_Union_Tipperary_20071221.pdf
[29] EB-2014-0275 Decision and Order, November 27, 2014
[30] EB_2005-0551 Natural Gas Electricity Interface Review ("NGEIR"), Decision with Reasons, November 7, 2006, page 36
[31] http://publicsde.regie-energie.qc.ca/projets/489/DocPrj/R-4076-2018-B-0056-DemAmend-Piece-2019_03_29.pdf , Annexe 5, pg, 1
[32] Transcript_Consultation_Volume 2_20140924, page 32, lines 5-18
[33] Transcript_Consultation_Volume 2_20140924, page 34, lines 10-20
[34] Transcript_Consultation_Volume 2_20140924, page 24, lines 5-8
[35] Transcript_Consultation_Volume 2_20140924, page 26, line 10 to page 27, line 5

Beyond these pieces of anecdotal evidence, the Board relied on opinions that were not uncontested. In our view, the Board ought to give weight to what has actually occurred as opposed to what experts thought may occur. We, along with many parties, brought our concerns with this transition to the Board in the merger proceeding but the issue was deemed to be out of scope for the hearing.[36] In our respectful submission, it is not in the public interest for this control of the market to continue and would urge the Board to consider how this matter will be addressed.

b) It is Time to Review the STAR in light of the Merger

As outlined above, developments have occurred in the storage market since the time of the NGEIR decision. The Storage and Transportation Access Rule ("STAR") was developed shortly after NGEIR to ensure non-discriminatory access and inform the Board to allow oversight. Without repeating the evolutions of the last decade, we respectfully submit that it is time to review STAR.

Prior to the merger, market participants including utilities, marketers, suppliers and end use customers could go to either Union Gas non-utility storage or Enbridge Inc. storage to get a price for storage to test the market for their Ontario-based needs. That option no longer exists. Further that Enbridge controls market-based transactions for storage and to some extent transport through their C1 rate setting at St. Clair, Ojibway and other import points. The setting of prices and in fact, the supply of market-based services puts the parent company in a dominant market position when demand is very inelastic.

An example may illustrate our concern. For a number of years, Union Gas has provided an "Operational Status Light".[37] These lights tell market participants if there are restrictions on discretionary (e.g., interruptible services, etc.) services. Union/Enbridge Inc. also determine the level of firm and interruptible rights put into market-based storage contracts. Through their responsibilities as market operator at Dawn, the Company has sole discretion when to change the light from green to yellow to red. Specific criteria is not published. When the light is yellow or red, market participants cannot necessarily access interruptible rights. If the situation is such that the party needs firm service to meet some conditions or contracting requirements, the only source of service is the non-utility storage service owned by EI. With a non-independent system and market operator, this situation is at risk for abuse.

To be clear, we are not saying that Enbridge Inc. is abusing their position. However, we believe it is the Board's responsibility to ensure that the market and, more importantly, the consumers of Ontario do not have to rely on benevolence of Enbridge Inc.

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[36] EB-2017-0306/0307 Decision, pg. 48
[37] https://www.uniongas.com/storage-and-transportation/informational-postings/operational-status

In the last year's deferral account proceeding, we asked about the criteria used[38]. We were refused response as not being relevant. In our view, how EGI/EI operates the market at Dawn given the grey line between utility and non-utility storage is very relevant and we respectfully urge the Board to address a review of STAR in light of the current market in Ontario.

SUMMARY

We appreciate the complexity of gas supply and challenge of the developing review process. We commend EGI in its initial efforts. At the same time, we believe there are improvements to the presentation of the plan, the review process and a need to address market developments.

We respectfully submit the following recommendations to the Board for consideration:

1) Gas Supply
   a) Demand Forecast

      i) Prior to completion of the SENDOUT integration, the Company can perform a high level review of the combined contracts by delivery area and initiate preliminary discussions with third parties to allow for a rationalization of those contracts. The Company can then report on the review and steps in the Annual Update.

      ii) The Company can perform a sensitivity analysis on its demand forecast to establish base annual deliveries and optimize discretionary purchases. This analysis ought to be presented in the Annual Update.

   b) IRP Consideration

      In its Gas Supply Plan, the Company ought to evaluate the system benefits of selective geographic contracting of gas delivery (e.g., Niagara to Kirkwall). This type analysis should likely be part of the Company's IRP application later this year.

   c) Legacy EGD Load-balancing Needs

      i) In the Annual Update, EGI should provide supporting analysis using historic data to demonstrate that purchasing more storage, synthetic or physical, is more cost effective than pre-purchasing Dawn deliveries as an alternative.

[38] EB-2018-0105 Exhibit B.FRPO.5

ii) EGI's blind RFP process needs refining if it is to be an effective tool in demonstrating independence in the contracting of load-balancing services while ensuring a robust assessment of the alternatives. Refinements could be presented in the Annual Update.

2) Gas Supply Review Process
   a) & b)The Board ought to reinforce its expectations for the Company to provide quantitative assessments of costs, volatility and bill impact as documented in the Board's report on the Framework. This additional evidence could be presented in the Annual Update.

   c) Additional time would increase the opportunity for the Company to be responsive and provide information and their presentation ahead of the Consultation improving the effectiveness of the process.

3) NGEIR & STAR
   a) & b) Current market conditions could not have reasonably foreseen at the time of these important decisions. We call on the Board to initiate the appropriate proceeding to address current market realities.

COSTS

Given the nascence of this Framework proceeding, it is difficult to estimate the investment of time needed to provide assessment and feedback to the Board on the plan, the process and current market conditions. We have strived to serve the Board as best we are able and respectfully request a cost award for all reasonably incurred costs. We respect hourly limits were provided and will accept if the Board deems that any incremental hours requested in our cost award are not valued based upon our contribution to the Board's consideration and mandate.

ALL OF WHICH IS RESPECTFULLY SUBMITTED ON BEHALF OF FRPO,

Dwayne R. Quinn
Principal
DR QUINN & ASSOCIATES LTD.