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January 17, 2020

Ms. Christine Long
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, Ontario M4P 1E4

Dear Ms. Long,

Re: EB-2019-0137 – Enbridge Gas Inc. 5 Year Gas Supply Plan

In accordance with the Ontario Energy Board's correspondence dated December 19, 2019, enclosed please find the Ontario Petroleum Institutes Comments on OEB Staff Report of December 19, 2019 and Response to EGI Reply Submission of November 18, 2019.

Should you have any questions on this matter please contact the undersigned.

Sincerely,

Hugh Moran

Hugh Moran
Executive Director

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ONTARIO PETROLEUM INSTITUTE COMMENTS ON OEB STAFF REPORT OF DECEMBER 19, 2019 and RESPONSE TO EGI REPLY SUBMISSION OF NOVEMBER 18, 2019

CONSULTATION TO REVIEW NATURAL GAS SUPPLY PLANS

ONTARIO ENERGY BOARD: EB-2019-0137

Prepared by:
The Ontario Petroleum Institute

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A. BACKGROUND to these Proceedings

1. Over the course of several years, several gas supply rate methodologies and other producer-related issues have been brought before the Ontario Energy Board ("OEB"). It has taken many years to have various gas supply rates and other related issues before the Ontario Energy Board ("OEB").

2. On December 14, 2018, Enbridge Gas Inc. ("EGI") applied to the OEB for approval for rate changes for the combined Union Gas Limited/Enbridge Gas Distribution system. The OEB assigned case EB-2018-0305 to this rate hearing.

3. Many of the issues in the rates case did not appear to apply to the Ontario Producers, so the Ontario Petroleum Institute ("OPI") did not request approval as an intervenor until the OEB proposed a Settlement Conference to discuss the remaining contentious issues. The Settlement Conference was held on May 13-14, 2019.

4. Issue 7 on EGI's issues list for the Settlement Conference was to address the M13 contract provisions, which directly and adversely affect OPI members. (Issue 7 on EGI's issues list became OEB Issue 8 during the Settlement Conference.) OPI's prime concern in this hearing was that EGI would amalgamate the OEB-approved M13 rate schedule with the non-OEB-approved *Ontario Gas Purchase Agreement* ("GPA"), thereby drastically increasing meter station costs for small producers in the province. Additionally, there were other contract-related issues. During the Settlement Conference, EGI indicated that they had no intention to combine the two contract options for Ontario Producers. M13 is the OEB approved rate for the transportation of locally produced gas from a producer station in the Union south area to Dawn. The GPA is for sales of gas directly to EGI in the Union South area and is unregulated at this time. The OEB indicated that gas supply issues were not to be heard as part of the EB-2018-0305 hearings. All the other issues of concern to the OPI were deferred to a separate proceeding. The positive result from the Settlement Conference was that EGI confirmed that they were not going to impose the M13 station charges on the GPA contracts, however it should be noted that the result does not stop EGI from requesting changes when they rebase for 2025 rates.

5. Thereafter, the Board initiated a consultation to review EGI's five-year gas supply plan on July 25, 2019. A stakeholder conference was convened on September 23, 2019 at which time EGI presented its plan and provided stakeholders with a copy of the company presentation. The OPI attended the stakeholder conference and presented its members' positions in writing and made oral submissions. EGI suggested that the OPI was again in the wrong hearing and its issues were not suitable for discussion in this Consultation.

6. Stakeholders provided comments by October 21, 2019, with the date for written responses from EGI extended to November 18, 2019. Board staff provided a draft OEB Staff Report for comments on December 19, 2019. The OPI herein provides comments to the Draft OEB Staff Report and makes its reply to the November 18, 2019 Reply Submission of EGI in Appendix 1.

B. HISTORY

7. In any assessment of the current context of rates and charges of the utility today, some history of how Ontario produced gas evolved is useful and relevant. 1890 is the first year of recorded natural gas production in Ontario. Since then, natural gas has been produced continuously and consistently in the province with peaks in 1917, 1940, 1960, and 1985 due to successful exploration and development activities. Since 1985, gas production has continued, and has slowly declined in a steady and consistent manner. Please see Figure 1 for a chart showing Ontario producer natural gas production. More stable pricing would lead to more steady and consistent production with potential for increased exploration and development activities.

8. The majority of the natural gas produced in Ontario was, and still is, in the local rural service perimeter areas of the former Union Gas Limited ("Union"). For more than 100 years, Union naturally amalgamated multiple local Ontario producers and grew itself into the sophisticated integrated utility it became, prior to the acquisition by EGI – hence the name *Union* Gas. Local producers were respected, needed and understood, as this 'union' was the root of the future gas company.

9. After natural gas was connected out of necessity to western Canada around 1957, with Parliament's support of the TransCanada Pipelines Ltd. inter-provincial pipeline, gas began to flow from Alberta, storage was developed, and the Panhandle Pipeline networks were twinned to enhance provincial access to incremental gas supplies. Union naturally grew to hold an integrated and dominant market position as the gas utility in southwestern Ontario, where locally produced natural gas supplies remained an integrated part of the provincial supply mix.

10. Over the succeeding decades, Union understandably evolved to a position where it and its customers outgrew sole reliance on these Ontario production facilities, to supply increasing incremental gas volumes to satisfy provincial gas requirements. However, over those decades, Union also began to dictate the terms on which it would or would not receive gas from Ontario producers.

B. JURISDICTION

11. The core issue of jurisdiction remains important, when this Board proceeds to examine a set of issues, including the gas supply issues in this Consultation. As a fundamental

premise in this proceeding, the OPI accepts that the Board has broad rate-setting jurisdiction over the movement of gas supplies entering into and moved on provincial utility pipelines in Ontario. This includes the OEB, in its role as surrogate for competition, acting out its statutory public interest mandate in its duty to understand and monitor the terms, conditions, health and sustainability of the provincial natural gas marketplace.

12. The OPI submits that the Board possesses the broad power to review EGI's gas supply plans and underlying agreements, particularly as they relate to flowing the gas cost consequences into rates. In this regard, the legislature updated the *Ontario Energy Board Act* and specifically offered guidance to the Board through the following principle, purposely set out in Section 2 of the *Act*:

    5.1 To facilitate the maintenance of a financially viable gas industry for the transmission, distribution and storage of gas.

13. OPI respectfully submits that the OEB, in this Consultation, is squarely within the boundaries of its jurisdiction to examine relevant facts adduced by the parties, that may adversely affect the viability of the gas industry in Ontario.

14. In EGI's reply submission to the *OEB Consultation to Review Natural Gas Supply Plans*, EGI states at paragraph 88 that the commodity purchase agreements are not subject to Board approval. The OPI strongly disagrees with EGI's assertion as it is neither correct in law, nor in practice. The OEB has clear, core jurisdiction over setting natural gas rates as they affect users of the EGI system. As will be articulated in this section of the OPI's submissions, the Board's statutory authority necessarily entails that in setting gas rates, the OEB has an obligation and provincial public mandate, to review what terms and conditions are contained in the contractual arrangements underlying the costs it is being asked to approve.

15. Some parties to this Consultation may recall that prior to the mid 1980s, the North American natural gas structure was historically based on a government-set pricing mechanism between producing jurisdictions and consuming jurisdictions. At the same time as the movement towards 'Free Trade' was growing, federal, provincial and state governments negotiated the beginning of a more relaxed energy market between and among jurisdictions, based on contract pricing mechanisms, supply security and even reservation calculations to ensure long-term supplies. Thus, the beginnings of a competitive marketplace were born, which has since evolved into a vigorous gas commodity marketplace, with competitive gas and pricing contracting.

16. At the time (late 1980s and early 1990s), the-then National Energy Board and the OEB through multiple respective rulings, made it very clear to all the gas utilities, that competitive market conditions were to apply to the commodity function in the market, whereas the monopoly functions would remain fully regulated. When it was reviewing the new era competitive gas supply contracts in the late 1980s, the OEB decisions with

reasons were vigilant and clear that the Board had and would exercise its jurisdiction to review and understand the language (and the meaning and intent) in those reviewable three-year utility gas supply contracts. At the time, the board was not satisfied with certain price-related terms and conditions – when it first rejected them – and the Board then sent the utilities back to re-negotiate them in order to satisfy the Board's concerns. The utilities respected that exercise of jurisdiction, went back and renegotiated the terms of those contracts, which were subsequently approved for rate-making purposes.

17. The Board relied on its inherent jurisdiction to understand those gas supply contracts, including their intended operations, the supplies behind the contracts, the price premiums and reservation rates, etc., as adduced in oral and written evidence, in order for the Board to accept and approve as just and reasonable, the gas cost consequences flowing into rates to be paid by the customers.

18. It is settled administrative law that a gas regulatory Board does not act in a vacuum; it must understand a certain level of the details surrounding the gas contracts, in order to set the rates that apply to them, in the exercise of its statutory jurisdiction.

19. EGI observes in paragraph 89 that the OPI's requests are beyond the Framework, and scope of the Board's review of the Plan", which is essentially the basis of the EGI message that the OPI is in the wrong proceeding (again).

20. The OPI submits that the Board has clear jurisdiction over the setting of gas rates, which arise from gas contracts, which the Board may consider in its deliberations and findings. The OPI is in the right proceeding to raise its decades of concerns with the utility rate treatment of Ontario producers.

C. RATES (and Cross-Subsidies)

21. In this Consultation, the OPI is protesting the improper treatment by the former Union, now EGI, the effect of which is to further disable the economic viability of the local production industry by that 'slow death by multiple cuts'. These matters of concern have been raised periodically by the OPI at Queens Park and in the OEB hearing room, and while to date, the OEB has expressed interest to hear more about the issues, the utility has consistently resisted an exploration of the issues.

22. The current reality is that EGI, the only utility which can take and transport local gas production in its distribution territory, is exercising its dominant market and other powers in the Ontario marketplace, the effect of which is to reduce the economic viability of the local gas production market. This strategy is indirectly implemented through inappropriate cost allocation and more subtle means, which is disrupting the industry. **Instead of fostering a local gas market, which was the origin of the gas market in Ontario, Union and now EGI have failed to recognize the value of Ontario produced natural gas. EGI has demonstrated a propensity to use their market and utility rate proposal power to fit local producer production into EGI's overall model which in**

effect discriminates against purchasing Ontario gas production. This is achieved by finding ways to assess unreasonable charges to Ontario producers for EGI's system in addition to blocking, or failing to pay, the Ontario producer the appropriate value for natural gas delivered to local markets.

23. Regrettably, the fear of the local producing industry is that the merger of Union and EGI, insofar as rates and terms for doing business, has reduced the ability of the local producers to do business in Ontario.

24. The requested corrective changes sought by the OPI membership, to recognize the benefits of local 'green' gas and to eliminate the inappropriate cross-subsidy from local producers to EGI and its customers, are entirely *de minimis* in terms of rate impacts for EGI and the 3.7 million customers.

25. The OPI engaged an experienced rates expert, who is very familiar with the former Union Gas Purchase Agreement, the evolved regulatory gas pricing matrix, and the M13 rate cost allocation and rate design as they relate to correctable rate and price impacts on OPI suppliers to EGI. The observation of the OPI is that implementing the requested changes to the EGI rates and regulatory procedures would have a rate impact of less than **$5 Million** annually on EGI, which translates into **$2.00-3.00**/year on a customer's annual gas bill in the Union South Rate Zone. This correction would eliminate the inappropriate cross-subsidy currently borne by Ontario producers. These amounts do not trigger any materiality tests that EGI would normally be concerned about in operating its system, or which would be a concern before the OEB, so the Union's prior rejections/actions and EGI's subtle resistance to date, is not understood by the industry.

26. The OPI would submit that implementing these corrective actions would result in a resurgence of drilling activities in Ontario, with the associated jobs and increase in 'green' gas being more available in the years to come, thus contributing to a more vibrant local gas industry, more Ontario jobs, economic growth and investment.

27. In addition, OPI members are committed to renewing its relationship with and working more closely with EGI to improve rural gas service and connecting more customers in southwestern Ontario, where possible.

Basic Principles

28. It is well established that there is a natural continuum of added value along the chain of natural gas service deliveries from the well-head to the customer. There is limited value to natural gas produced, where there are no customers or pipelines; gas utilities derive their value by transporting, storing and delivering natural gas to customers, for which services they charge their customers according to their approved regulatory matrix.

29. Ontario-produced natural gas is highly proximate to end-use customers, which is a significant advantage/benefit from a facilities and environmental perspective. Local Ontario gas is physically delivered into and at the ends of EGI's distribution pipelines - downstream of Dawn, the Dawn-Trafalgar transmission lines and EGI compression. In most cases, Ontario-produced natural gas must be compressed into EGI's distribution network and can only flow if there is capacity in the utility system to allow the gas to enter. The Ontario producers essentially act to balance the utility's system. In fact, where EGI deems there is no capacity to take local gas into the utility system, producers are turned away from delivery points.

30. Due to the reasons described above and several additional benefits, Ontario producers believe that the value of their gas is not recognized in the price EGI unilaterally sets/dictates in its Gas Purchase Agreement ("GPA"). The price EGI offers Ontario producers is unrelated to the benefits and value of the gas delivered into the EGI system. Rather, the diminished price EGI offers is based on the Canadian Gas Price Reporter ("CGPR") Dawn Index price, less the arbitrary allocation of transportation rates to Dawn and OEB-approved EGI balancing fees. **This price on average is $2.26 per GJ less than what small volume general service customers pay for gas to the utility, excluding carbon taxes and administration fees.** This constitutes an involuntary, utility-imposed cross-subsidy from the Ontario producer, forced by EGI, and until now, sanctioned unknowingly by the OEB in the rate-setting process.

31. This price discrimination is undue; it is the root of the problem, and effectively results in Ontario producers subsidizing the utility and its customers. Ontario producers are paid a lower price for their environmentally preferred gas with no negotiating strength to have local gas attributes recognized. Some societal benefits to Ontario produced gas include; royalty payments to landowners and the province, lease payments to landowners and the province, municipal, provincial and federal taxes, direct and indirect local employment. Environmental benefits include; less compression, gas shrinkage and C02 emissions, no water contamination associated with the high-volume hydraulic fracturing of shale gas wells. If more proof is required of a purposely negatively lowered gas price, the best evidence is to look at the transparency of the market price paid by neighboring utility EPCOR Natural Gas Limited Partnership ("ENGLP"), and approved by the Ontario Energy Board for inclusion in ENGLP's rates; ENGLP 2019 yearly average rate would have been $4.19 per GJ ($3.95 per GJ for commodity, $0.20 per GJ for demand, and $0.04 per GJ for delivery), while adjacent to ENGL's franchise area, essentially from the same Ontario producer pipeline system, EGI is able to unilaterally abuse the regulatory construct to manufacture a lower price to be paid for local gas, using the foil of phantom transportation of gas to and from the EGI Dawn Hub. This price average for 2019 was $3.09 and does not include monthly station fees charged by EGI.

32. None of these discriminatory rate, terms and conditions related to delivery mechanisms occurred overnight or in one rates case; it was a slow and evolutionary set of regulatory rates, terms and conditions which were assembled piece by piece, with the cumulative result of forced contracting, part of which is hidden in the OEB-approved rates.

Total Gas Supply Commodity Charge

33. Ontario producers believe they should receive the Total Gas Supply Commodity Charge ("TGSCC") for natural gas delivered to EGI in the Union South Rate zone. They should not be charged transportation to Dawn, because their gas is never transported to Dawn. The gas purchased by EGI from local producers should be purchased at the point of delivery onto EGI's distribution system.

34. This TGSCC price appropriately represents, for rate-setting purposes, the true value of natural gas commodity in the local communities, where Ontario producers deliver natural gas as it is the Board-approved rate charged to customers for the commodity. In addition to receiving the TGSCC Ontario producers should receive a proportionate share of the delivery charges EGI administers to its customers. In the case of Metalore Resources Inc. ("Metalore") where customers are being served off of their pipeline directly, Metalore is receiving 100% of the Delivery charge as an avoided cost of service.

35. EGI has a dominant market position when dealing with Ontario producer purchases due to their wide spread monopoly and the fact that Ontario production is embedded near the end of EGI's distribution system. This dominant position has largely blocked Ontario producers from receiving a price approaching the market price paid by system gas consumers in franchise areas. In the few locations where competition can still occur in the market, Ontario producers have been able to achieve pricing for their gas more in line with the inherent value of their gas, where it is delivered. The following section will illustrate some of these examples.

D. Examples to illustrate Value of Local Gas

ENGLP

36. Lagasco Inc. ("LCO"), an Ontario producer, commenced deliveries to ENGLP in December of 2019 from a location west of Port Burwell within ENGLP's service area. The location of the station for the ENGLP deliveries is indicated on the attached Figure 2 at number 27. LCO also delivers natural gas to EGI at several nearby locations as set out in Figure 2 numbers 14, 15, 25. The price LCO receives for natural gas delivered to EGI is substantially lower than the price LCO receives from ENGLP. The average price under LCO's contract with ENGLP in 2019 would have been $4.19 per GJ or higher (depending on actual volumes consumed) in contrast the price LCO received from EGI at nearby delivery points averaged $3.09 per GJ without the reduction for meter station fees in 2019. LCO meets the same quality provisions as EGI in its sales to ENGLP. It should be noted that LCO does not have to pay any fees to ENGLP similar to the charges under the M13 contract for natural gas delivered at the custody transfer point.

OMLP

37. A prospective Cannabis growing operation approached On-Energy Corp. seeking natural gas supply for its planned growing operation near Langton Ontario. The property on which they were building had no Certificate of Public Convenience and Necessity ("CPCN"). OM Limited Partnership ("OMLP") was formed as an entity to supply local production to the operation. A contract was negotiated and the agreed upon price was Union's M4 rate less a small discount. The average price for Ontario producers in 2019 was $3.09 per GJ, again without meter station fees, compared with the average price charged to the Cannabis operation of $4.73 per GJ. OMLP's delivery location to the cannabis growing operation is number 27 on Figure 2. This further demonstrates the value of Ontario producer natural gas when competition exists in the market place. OMLP meets the same quality standards as EGI in its sales to the Cannabis operations.

Metalore

38. Metalore is a local Ontario producer with 134 residential and small business customers served directly off their natural gas gathering lines. These customers are termed field line customers and are invoiced by EGI monthly. Metalore followed the same example set by OMLP and received a CPCN to supply a cannabis growing operation and they anticipate commencing deliveries in the second quarter of 2020. Metalore delivers the natural gas not consumed by its field line customers or the cannabis growing operation to EGI at its three delivery points into the EGI distribution system. Please see Figure 2 indicating the location of the Metalore's system.

39. For Metalore's field line customers, the company receives a premium for EGI's avoided cost of service which represents the average cost of service for regular rate customers. Additionally, the natural gas supplied to field line customers does not have a balancing and transportation deduction. This means Metalore receives an additional $1.42 per GJ for gas delivered to the field line customers. Although the gas never enters the EGI system, Metalore receives the CGPR Dawn Index price which is the 28 day forward strip for the natural gas commodity, while EGI is charging the customers the TGSCC for the same gas. This means that EGI pays less to Metalore for the commodity that EGI charges the customer, which is served by Metalore. Metalore meets the same quality standards in its sale to EGI as it meets to it other customers. Metalore receives a reduced price for the commodity but does receive a premium equal to the avoided cost of service.

Enbridge Gas Distribution ("EGD") Deliveries

40. LCO delivers natural gas to EGD, now EGI, in the Union South service area near Port Maitland as set out in Figure 2 location number 26. Although not ideal, the arrangement between the parties is much more reasonable than that for the M13 delivery locations in the former Union area. The contract for gas delivered at this location was negotiated long before the amalgamation of Union and EGD at a time and for a location where there was some competition in the market for natural gas. EGD's predecessors recognized the value in receiving natural gas deliveries near local markets. There is a swap type arrangement where the gas delivered at location number 26 is deemed to have been

delivered to Dawn. In addition, LCO invoices $0.15 per GJ, an amount equal to a portion of the avoided transportation charge which would have been paid for deliveries from Dawn.

41. LCO also delivers gas at 2 locations to the former Union Gas in relatively similar volumes under an M13 contract. Unlike the EGD arrangement, LCO is assessed charges for balancing, station/transportation and HUB name changes all of which total as much at $8,000 per month per station. The terms under which gas is delivered at location number 26 receives a premium on natural gas delivered to EGD. The average difference in price due to the premium for EGD and the deductions by Union is $0.23 per GJ.

42. It should be noted that if all of OPI's recommendations were accepted, the resulting changes in costs on EGI is likely not material. OPI estimates the cost would be less than $0.027 per GJ. There is no question EGI should be diligent in attempting to obtain gas supplies at the lowest possible cost. However, EGI should not be allowed to do so at the cost of Ontario producers. EGI should not be permitted to use their market power and dominance in negotiating supply arrangements to the detriment of the Ontario natural gas production industry and the province as a whole.

E. CONCLUDING REMARKS

43. The OPI thanks the OEB staff for recognizing the importance of this issue to the Ontario natural gas producers. OPI and its members welcome the opportunity to meet with EGI, not only to fix the regulatory construct for Ontario-produced gas, but also to explore future opportunities where these parties can work highly cooperatively together. It is important that these meetings be well organized in advance and be supervised and mediated at the OEB offices, as soon as possible. However, OPI does not wish to miss the opportunity to have any issues unresolved at such meetings brought before the Board for a full review and hearing.

ALL OF WHICH IS RESPECTFULLY SUBMITTED BY

THE ONTARIO PETROLEUM INSTITUTE

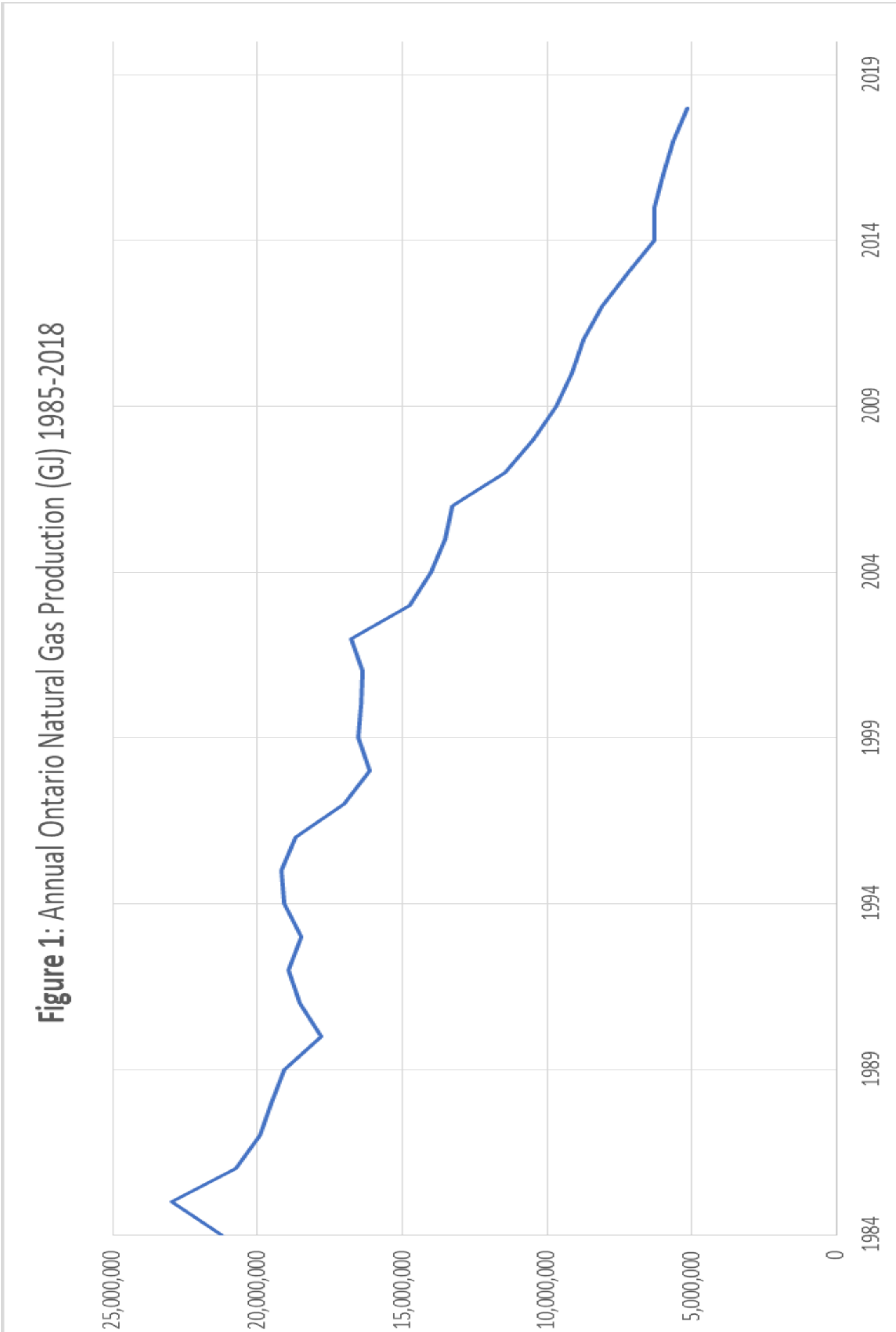

Figure 1: Annual Ontario Natural Gas Production (GJ) 1985-2018

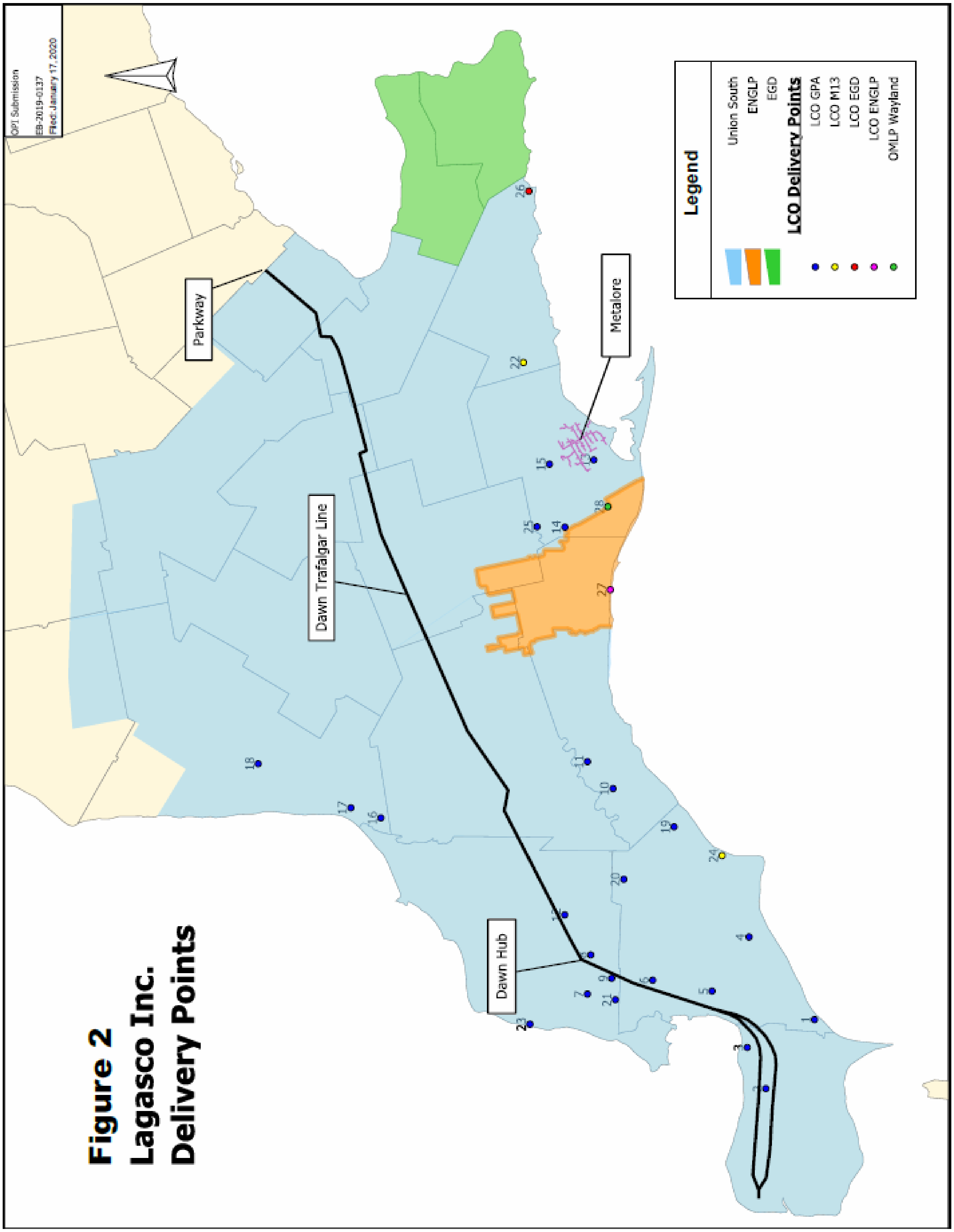

Figure 2
Lagasco Inc.
Delivery Points

APPENDIX 1: The OPI's Comments on the Reply Submission of EGI

General Observations

1. In EGI's reply submission to the *OEB Consultation to Review Natural Gas Supply Plans*, at paragraph 88 EGI states:

   "OPI's submission requests Board intervention in commercial commodity purchase agreements which are not subject to Board approval, alterations to distribution rates within the deferred rebasing period, and changes to EGI's operations, including "priority system access" and the ability to allow producers to construct EGI's meter stations."

2. The OPI strongly disagrees with EGI's assertion that commodity purchase agreements are not subject to Board approval as it is neither correct in law, nor in practice. The OEB has clear, core jurisdiction over setting natural gas rates as they affect users of the EGI system.

3. In paragraph 89 EGI states:

   "*OPI's requests of the Board are beyond the Framework, and the scope of the Board's review of the Plan."*

4. The EGI message is that OPI is in the wrong proceeding yet again. OPI strongly disagrees and confirms that OPI participated in the EGI main rates case, at which time, OPI was advised that their concerns would more appropriately be addressed at the 5 Year Gas Supply Plan review. OPI submits that this proceeding is *the* appropriate venue, as it is geared to precisely the gas supply issues, which are raising the focused concerns of decades of inappropriate rate treatment for Ontario gas producers.

5. However, given the importance of these direct and rate-related issues to natural gas consumers and local Ontario producers, which OPI repeatedly has raised before the Board for many years, **OPI is asking for a formal Board hearing process, to be convened, if necessary, on the Board's own motion.** OPI would be satisfied to start this process by adopting and supporting the Board Staff's proposal to convene meetings at the Board between OPI and EGI.

6. In paragraph 89 EGI continues:

   "As pointed out by Mr. LeBlanc at the Stakeholder Conference[125], the majority of OPI's recommendations amount to requests for EGI to alter its policies and practices in order to subsidize the operations of Ontario natural gas producers using ratepayer funds."

7. The OPI takes strong exception to this statement as it is the local producers, who are forced to engage in cross-subsidizing the utility and its ratepayers via the skewed rates that the utility continues to ask the OEB to approve, case after case. Ontario gas producers are only asking for just and reasonable pricing for the natural gas commodity and services being delivered to EGI and its customers. The subsidy that does exist is the historic and current subsidy by Ontario producers to EGI and its customers. Ontario producers have and continue to save the utility and its customers costly infrastructure and operating costs by delivering natural gas at the local market.

8. OPI has obviously struck a nerve with EGI as evidenced by EGI's Appendix to their reply submission with over 5 pages devoted to the matter. OPI is pleased to provide a detailed response to the items identified in pages 1 to 5 of Appendix A to the Reply Submission of Enbridge Gas Inc.

Paragraph 1.

9. By way of background, the majority of the natural gas produced in Ontario was in the local rural service areas of the former Union. For over 100 years, Union naturally amalgamated multiple local Ontario producers and grew itself into the sophisticated integrated utility it became, prior to the takeover by EGI – hence the name *Union* Gas. Local producers were respected and understood as this was the root of the company.

10. After natural gas was connected to Western Canada around 1957, gas storage was developed and the Panhandle Pipeline networks were twinned, Union naturally grew to hold an integrated dominant market position as a utility. Union evolved to a position where it dictated the terms on which it would or would not receive gas from Ontario producers.

11. OPI is committed to "reset arrangements" as today they are not fair and equitable, nor are the cost consequences just or reasonable for rate-setting purposes. The producers had held some hope that they might receive better treatment following the amalgamation of Union with EGD to form EGI, however this aspiration is proving empty. The producers have virtually no influence in any negotiations with EGI, as with Union, and thereby have been disadvantaged for many years.

12. OPI reiterates its request for a clear and comprehensive regulatory review by the OEB as EGI has obviously adopted the same policies and practices as were exhibited by Union.

Paragraph 2.

13. OPI challenges EGI wherein EGI states:

> *"EGI is quite certain producers have not been subject to "myths" or "abnormal" conditions, nor have they been subject to "prejudicial gas supply policies"."*

14. If given a chance to present oral and written evidence, Ontario producers will supplement and provide evidence and subject itself to cross-examination as to its statements herein. How could it be any other way? Ontario's gas producers have been dictated to for decades as to how and where they will produce their gas and how much the utility will pay and what will be deducted from the payments due to rates charged by the utility. There has never been a proper, open or fair negotiation for decades. The producers have never been offered any protection from the dominant player in the industry.

15. It is understandable that the utility is not going to report to the Board its contractual and rate proposals treatment of local Ontario producers; because these producers have not been able to find the correct hearing or consultation window to come before the Board, even the Board and its staff are not, in fairness, likely able appreciate the inequality of bargaining power between the utility and the local producers. This lack of understanding is adding to the long-term effects the imbalance is having on the producers, their suppliers, the jobs and communities as the local gas industry shrinks unnecessarily.

Paragraph 3.

16. Union and now EGI have always thought that there is just one market for the gas produced in Ontario, that being Dawn. In fact, for all the consumers of gas in Ontario, there are many markets for gas. Unfortunately, for both the producers and many customers, Ontario producers have been blocked by the utility and historical restrictive legislation from accessing these numerous markets. Therefore, if the utility is the only place the gas can be delivered, the producers should receive a price at or near that which the utility is allowed to sell the gas. In this case, the EGI rates would and should become the market price for gas.

17. There are 3 recent examples where Ontario producers have accessed the marketplace. In each example, Ontario producers are receiving transparent, negotiated prices at or near that of EGI's regulated sales rates. The examples are; OMLP sales to a cannabis operation, Lagasco Inc. sales to ENGLP, and Metalore sales to a cannabis operation. OPI is not suggesting here that all Ontario gas should be sold directly to customers from local supplies. These examples demonstrate that the value of the gas in the Ontario gas marketplace is much higher than the price paid by EGI - and there is not a requirement for all gas to be sold at Dawn.

18. Not only is the price for the gas commodity determined by EGI in a discriminatory prejudicial manner, the phantom notion that the producers should pay for transportation of the locally delivered gas to Dawn, and that utility customers should have to pay to bring it back from Dawn is ridiculous – especially when locally produced gas never ever goes to Dawn. EGI appears to be charging twice for a service that does not occur.

Paragraph 4.

19. The OPI and its professional advisors are quite aware of the principles and mechanics of how the *Total Gas Supply Commodity Charge* is determined. The OPI supports this process for gas that is delivered to EGI at Dawn. However, gas that is produced by local producers is delivered at various custody transfer points and is not delivered to Dawn. The gas is consumed at or near where it enters EGI's system at its outer pipeline system edges at a few metered connection points. EGI's selling price in the local market is the market price in that locality. Ontario producers sell their gas locally and should receive the local price.

20. Customers usually have purchase choices in the market. They can choose to use electricity, propane, fuel oil or other products. Fortunately for many millions of Ontario consumers, the market price for gas is substantially less than that of the other fuels noted and consumers often choose to use natural gas. The market price is the price paid by consumers in the market and the local producers are being blocked from access to this market, either by market dominance or inadvertently by regulation, rates and conditions of service.

21. In paragraph 4 EGI states the following:

> "OPI has misunderstood the nature of the Total Gas Supply Commodity Charge. This charge is a QRAM regulatory construct meant to recover the actual pass-through costs of natural gas from customers; not a market price paid for commodity at a specific time and location. It incorporates a wide variety of functions including but not limited to a prospective forecast of natural gas prices over a 12 month period, a true-up of actual prices against forecast prices, a true-up of actual volumes against forecast volumes, an adjustment to the cost of gas in storage, and in the case of the Union South rate zone the cost of upstream transportation to bring gas from other markets into Ontario."

22. It is the OPI's position that Ontario producers should receive, each of these components for the natural gas delivered by Ontario producers into EGI's distribution network and then directly to customers.

23. The **Forecast of natural gas prices and the true-up of actual prices against forecast** in theory reflect the actual price EGI pays for its natural gas commodity. By contrast the CGPR Dawn Index price, currently received by Ontario producers, is a forward-looking spot price with no true-up mechanism at the Dawn hub. The Dawn hub is upstream of Ontario producers and Ontario customers. Ontario producers should not receive a forward-looking spot price when their gas is injected directly into the distribution network and consumed locally by customers. It is reasonable that Ontario producers should receive the above stated component of the TGSCC as it is a component of the market price paid by customers where Ontario production occurs.

24. **The cost of upstream transportation to bring gas from other markets into Ontario** portion of the TGSCC recognizes the costs associated with natural gas transportation and the value-add of natural gas delivered closer to the customer, in this case it reflects

transportation upstream of the Dawn Hub. Natural gas produced in a location with no pipelines or customers has no value. This is one reason why Ontario produced natural gas delivered in proximity to customers has increased value. Ontario producers should receive this component of the market price paid by the customers of EGI.

25. The **true-up of actual volumes against forecast volumes** portion of the TGSCC recognizes the costs associated with balancing the EGI system. This component should be included in the Ontario producer price because Ontario producer volumes cannot enter EGI's distribution infrastructure unless there is room for the gas to enter the system, thereby acting to balance the system. Volumes can only enter the system when there is room and Ontario producers are told they cannot connect if there is no capacity.

26. The **adjustment to the cost of gas in storage** portion of the TGSCC should be received by Ontario producers. Ontario production enters EGI's system downstream of storage assets and may only enter the system when there is space in the pipeline to enter. OPI emphasizes that Ontario gas production *reduces* the need for storage (and associated costs to customers) by acting to help balance the system. It is reasonable for the Ontario producer to attain this component of the TGSCC.

Paragraph 5.

27. As was noted above, local gas producers had hoped that with the amalgamation of Union and EGD there would be a change in the policies and practices exhibited by EGI. OPI does not have an "incorrect understanding of what the TGSCC Charge represents." It is the price at which EGI sells gas commodity in the marketplace, regardless of how it is determined.

Paragraph 6.

28. It is difficult to understand how EGI could believe that "Dawn is proximate the physical locations of producers in Southwest Ontario". The dictionary defines proximate as "nearby, close, adjacent neighbouring, immediate, adjoining, contiguous and near". If EGI somehow thinks the local production is "proximate", then why is EGI charging local producers to transport the gas to Dawn and re-charging the customers to transport it back? Without the local producers, EGI would have to purchase gas from other sources, which are out of Province and often out of country, and at prices typically higher than those paid for gas produced in Ontario at or near customers. Although this may be the desire of EGI, there is no logical reason why EGI should substitute Ontario production for out of province supplies and then purposefully price Ontario gas at a substantial discount.

29. It should be easy to accept and understand the principle that natural gas supplied close to the point of consumption is more valuable than natural gas supplied at great distances from the point of consumption. This is evidenced by EGI charging delivery services to customers and by customers accepting these charges, all of which has been routinely

approved by the OEB. With this principle in mind, it is easy to see that Ontario producers are not asking for a subsidy from customers, but instead are seeking a fair price that approximates a market price for their gas.

30. Considering the above principle, it should also become very apparent that the Ontario gas producer is subsidizing EGI and/or its customers by paying phantom transportation charges to Dawn (where the gas never goes), balancing charges and being forced to accept commodity pricing much lower than EGI's average purchasing price. This entire regulatory construct, hidden in OEB rates and EGI contracts, is suspect and troublesome.

31. It is also noteworthy in supporting a true market price to mention that local gas does not incur cross-country transportation, nor compressor fuel costs, to get it here – because local gas *is* here. Even the environmental benefits of less carbon pollution because the gas *is* here, are obvious, but not recognized, yet.

Paragraph 7.

32. OPI acknowledges that Union responded to its request for a change in the reference point, when pricing Ontario production under the GPA contracts. This was following complaints from numerous producers that they were receiving the Niagara price for gas being delivered in Southwest Ontario much closer to the Dawn Hub than Niagara. Union acquiesced and went through a process of reviewing and issuing new contracts to local producers. The new contract that producers were forced to sign in order to receive the higher Dawn price included a clause stating that Union would be altering the monthly station cost to one that resembled the M13 monthly station cost, <u>an increase from approximately $96.00 per month to $997.00 per month</u>. The threat of this increase demonstrates one more example of how Union threatened and intimidated the local producers, all the while holding themselves out as "good guys". It is OPI's position that no meter station charges should be charged under GPA or M13 contracts.

Paragraph 8.

33. EGI states:

> *"To the degree a local producer does not wish to sell gas to EGI at a Dawn Index price under the GPA, they may elect to sell their gas into the open market using EGI's M13 service."*

34. This is a very wholesome statement, but in fact, most of the Ontario producer stations deliver in smaller volumes. EGI's rates for M13 service are so expensive that it prohibits all but the highest volume producer locations from using it. In fact, OPI is aware of only two locations in Ontario where producers continue to sell gas to EGI under M13. One of OPI's members, LCO., delivers approximately 4,000 GJ per day at the Morpeth meter station and 1,000 GJ per day at the Nanticoke meter station. For this service, Lagasco pays approximately of $16,000 per month for the two stations for EGI charges including

monthly station charges, transportation, Hub charges, name change charges and balancing charges.

35. Other Ontario producers cannot economically justify these high rates for the lower volumes produced and must accept the utility's GPA, or shut-in their gas wells, then plug them, leaving the gas resource in the ground. It should be noted that locations where smaller volumes are produced, require smaller and less sophisticated metering facilities, which should translate into lower meter station charges, instead of higher costs imposed by EGI on producers at these locations. It should be noted that historically Union has charged Ontario producers for the meter station build costs and that the majority of these stations are in excess of 20 years.

Paragraph 9.

36. It may be that EGI does not understand or appreciate the history and role of locally produced gas in the EGI system. Ontario producer gas has been used to support local gas networks since 1890. It wasn't until 1958 when line 1 of the TransCanada Pipelines mainline was installed that supplies started to flow from outside Ontario into this jurisdiction.

37. Local supplies continued to be used to supply local markets. Today, Ontario natural gas production in aggregate remains stable and reliable. Ontario gas can only flow into the distribution network if there is enough utility in-take capacity and customer demand. Therefore, Ontario producer gas cannot flow into EGI's distribution system unless there is a need for it. Ontario producer gas adds to Ontario's security of supply and balancing for EGI's system; it also acts as an available local supply at the ends of the utility pipeline infrastructure, thereby reducing the need for incremental infrastructure spending in the EGI system. These benefits are not attributed any recognition by the former Union, or EGI.

38. OPI does not understand how EGI could contest the fact that local production enters the EGI system "downstream of the majority of EGI's assets". By the simple laws of physics, natural gas cannot flow up pressure gradient. Therefore, if local production is delivered into a distribution system, it does not, and physically cannot, flow to EGI's storage and transmission assets. The gas produced has nowhere else to go other than directly to the consumer.

Paragraph 10.

39. EGI states:

> *"This matter was contested by Energy Objective and adjudicated by the Board some time ago in RP-2003-0063/EB-2003-0087/EB-2003-0097 in relation to the M13 balancing fee. The basic facts have not changed since that decision. As described in*

the Board's Decision with Reasons, "Union stated that Energy Objective's assertion that Ontario production gas was used to service local markets was irrelevant. On any given day, including peak days, there may be no gas deliveries from Ontario producers. This is the rationale for Union's imposition of a balancing fee for the gas producers.""

40. OPI takes exception to where Union indicated that it was irrelevant that Ontario production is used to serve local markets. Union, and now EGI, like all utility operators, take normal operational steps to backstop suppliers and facilities in order to enhance system integrity. There can be no better security of supply than from local production to local markets.

41. Furthermore, Ontario producer volumes delivered are downstream of compression and can only enter pipelines if pressures permit, meaning the pipelines are not full. EGI will only allow new Ontario production to connect if EGI deems there is available capacity in the network for local production to enter the system. Therefore, Ontario producers actively participate in balancing the EGI system daily; they should not be charged a transportation or balancing fee.

Paragraph 11.

42. OPI would remind parties to this proceeding that the OEB is an administrative tribunal; as such, the Board is free to make a decision based on the current evidence and information before it, and is not bound by a decision of a previous panel.

43. OPI believes many facts have changed over the last 15 years, with consequences that are within the Board's jurisdiction, specifically the rates that EGI is charging directly and indirectly to OPI producers, which urgently requires OEB review.

44. The excerpt from the Board's decision of 2004 must be viewed in the proper context. The Board's finding in this matter was to approve the imposition of a monthly fixed charge based on the number of stations related to each customer and has no relation to appropriate local producer commodity pricing.

45. It should be noted that in the paragraph following the excerpt quoted by EGI, the Board noted the following:

"The Board has elsewhere in this decision expressed the view that it regards local production to be an important aspect of the province's overall energy environment. Issues surrounding its development may be better explored in an appropriate policy forum."

46. At line 308 of the *Decision with Reasons,* dated March 18, 2004 the Board stated its findings as:

"Regarding the concerns of Energy Objective related to both Union's spot gas purchases and the policy of a Parkway delivery commitment for Ontario gas producers, the Board is of the view that Energy Objective has not provided sufficient support for the positions it is advancing. The Board considers the production and marketing of Ontario natural gas to be an important policy issue in the province's energy supply plan. The Board invites Energy Objective to participate in the Natural Gas Forum to have its concerns considered in a broader policy context. Alternatively, the Board would welcome further evidence touching on this subject in subsequent proceedings.[OPI emphasis] In the interim, the Board accepts Union's position in this matter.""

Paragraph 12.

47. EGI states:

"The cost of balancing intermittent sources should not be unduly subsidized by ratepayers, and is thus recovered from producers through EGI's transportation and balancing fee."

48. OPI takes exception to this comment. The largest of the local producers have recently been canvassed and the OPI hereby confirms that the locally produced natural gas supplied to the EGI system over the last 5 years has had a reliability factor of 96%+, see below. Any failure to supply is related to an incident of Force Majeure, which has and can happen on any upstream pipelines. In addition, there is a gradual and predictable decline in the quantity of gas supplied seasonally, which may be offset by new drilling and production tie-ins should a supportive environment exist in the future for Ontario produced natural gas. In aggregate Ontario production is extremely reliable with over 25 delivery points adding to security of supply through diversity.

Compressor Ontime Percentage					
Year	**2015**	**2016**	**2017**	**2018**	**2019**
Hours per year	8760	8784	8760	8760	7752
MAITLAND					
COMP4	97%	97%	97%	97%	99%
MORPETH					
C201	94%	99%	98%	97%	99%
C202	97%	97%	98%	96%	97%
NANTICOKE					
NA COMP1	96%	97%	98%	96%	96%
AVERAGE	96%	98%	98%	96%	98%

49. EGI states that it handles all the administration. It should be noted that this is at a cost that OPI considers grossly excessive in respect of the actual costs that EGI would incur to deliver a simple record keeping administrative service. The OPI questions whether EGI

levies similar charges on other natural gas suppliers. For gas delivered at the 2 largest stations, the cost is over $16,000 per month and the services are priced as follows:

Current Month Charges				
Contract SA 26919 - M13037POST				
M13 Balancing				
Firm Daily Variability	2,500 GJ	$1.4410000 $CAD	*	$3,602.50
Firm Injection Commodity Charge	10,208 GJ	$0.0500000 $CAD	*	$510.40
Firm Withdrawal Commodity Charge	9,525 GJ	$0.0500000 $CAD	*	$476.25
M13 Transportation				
Station Charge	3 STN	$957.5800000 $CAD	*	$2,872.74
Delivery Commodity Charge	196,892 GJ	$0.0050000 $CAD	*	$984.46
Transmission Commodity Charge	196,892 GJ	$0.0350000 $CAD	*	$6,891.22
			Subtotal	$15,337.57
Contract SA 26918 - HUB595POST				
HUB Name Change				
Name Change Charge (Dawn Facilities)	328,109 GJ	$0.0030000 $CAD	*	$984.33
Fee Cap Reduction	(44,777) GJ	$0.0030000 $CAD	*	($134.33)
			Subtotal	$850.00
Total Charges This Month				$16,187.57
Harmonized Sales Tax [redacted]				$2,104.38

50. It should be emphasized that for the gas delivered to the former *EGD* system, there are and have been no such charges. In fact, rather than charge for the delivery of gas to Dawn, the local producer renders an invoice to EGD and now to EGI in the amount of $0.15 per GJ, which is meant to be a portion of the avoided cost of having that volume of gas transported from Dawn to the EGD portion of the system. The OPI wishes to stress that this is a much more appropriate way of dealing with the issue of avoided costs.

Paragraph 13. and 14.

51. Firstly, it should be noted that the gas producers are not customers of EGI, when they are in fact suppliers. OPI is prepared to provide EGI and the Board (and all intervenors) with examples of the circumstances, where OPI members have effectively been blocked from connecting to the Union system, as part of an evidentiary package at a formal hearing. Although there have been many more instances, a few of the more notable cases are set out below:

Example 1

52. An OPI member contacted Union concerning the Maybees compressor station requesting an increase in volumes to be delivered into the Union system. The name of the contact can be provided. Once Union Gas completed its capacity study, Union incorrectly and arbitrarily concluded that the OPI member could only deliver a very small volume to the station. This amount was smaller than the volume that was supplied to the station at the time and much smaller than the increase that had been requested.

Example 2

53. A producer drilled a gas well and made a request for a new station on the Union system. The excessive cost provided by Union was such that the producer was forced to plug and

abandon the well. In another case, the high cost of the connection to Union has caused the producer to flare solution gas in order to maintain oil production even though the landowner farmer cannot get natural gas for his grain dryer.

Example 3

54. An OPI member requested to go into a lower pressure system at Morpeth. After several months the producer is yet to receive any information on capacity or whether EGI will allow them to enter the lower pressure system.

Example 4

55. Another OPI member made a request for increased supply into the Cowal station, noting that several other stations into that local market also controlled by the producer had declined or had been removed. So in aggregate, gas supplied by the local producer into the local system had declined significantly. Regardless of this, EGI denied the producers request.

Paragraph 15.

56. EGI alleges that OPI would not use certified and qualified contractors. There are numerous engineers and contractors that have the appropriate certifications and qualifications to design and build safe and reliable stations.

Paragraph 16

57. EGI alleges that the costs for the maintenance is understated. It should be noted that Ontario producers are suppliers to EGI. For whatever reason, Union and now EGI wants to depict the OPI's members as customers whereas they are clearly suppliers. It should be noted that the majority of the locations were constructed well over 20 years ago, have had little or no alteration since that time, are substantially oversized, are likely fully depreciated and are attended by EGI staff on an infrequent basis. All but 2 stations are utilized for deliveries under GPA contracts. Volumes delivered under most GPA contracts are very minor and stations need only be similar to those of small commercial accounts. The OPI is quite confident that the cost to service small commercial account stations is significantly lower than $957.58 per month, otherwise they would all be using a fuel other than natural gas.

58. There are only 2 stations left in Union South where gas is delivered into the EGI under the M13 contract. The Morpeth Station was constructed in 1977, 43 years ago. Although it has been updated periodically throughout the years, the station must be fully depreciated. Nanticoke, the second station, was initially constructed 37 years ago in 1983 and has had very little updating since that time. It must similarly be fully depreciated.

59. The OPI submits that there should be no charge for customer stations. The custody transfers from the producer to EGI at the meter under the GPA contract. As such Ontario producers should not be charged for the maintenance of EGI's metering stations. Furthermore, Ontario producers should not have to pay the capital cost associated with metering stations they do not own. Ontario producers would prefer to have the option to construct, own and operate their own facilities and have no costs imposed on them downstream of the custody transfer point.