ONTARIO PETROLEUM INSTITUTE

Responses to Interrogatories from Enbridge Gas Inc.

M7-EGI-1

Reference:

Exhibit M7, page 4

Preamble:

OPI states that the price difference between the Union South Total Gas Supply Commodity Charge (TGSCC) and the price paid to local producers under GPAs represents a cross-subsidy from local producers to in-franchise customers.

Question(s):

a) What specific cross-subsidies are being referred to? Is it OPI's position that every producer who receives less than the TGSCC is cross-subsidizing customers?

RESPONSE:

Ontario-based producers contribute to the reliability and diversity of the system by providing gas in the market, even more proximate to the customers than the Dawn market. In fact, applying the economic concept of value tied to location, the gas in the distribution market has more value inherently because of the location (enhanced reliability) and that there can only be two suppliers, the utility or the producer. As GPA-delivered gas substitutes for the molecules of gas procured by EGI from other sources, OPI believes it is reasonable to conclude that the molecule consumed should be paid the market price charged by EGI, which is the TGSCC.

When Ontario producers are paid less than the TGSCC by EGI for gas delivered into the distribution system, which is absorbed by the local market, and EGI charges customers the TGSCC for the same molecules, then Ontario producers are lowering the TGSCC, which acts as a cross-subsidy to in-franchise customers.

An example of this is Metalore Resources - an Ontario producer which serves several customers directly from its gas gathering lines. EGI pays Metalore the GPA commodity price and an avoided cost of service. EGI then invoices the customers the TGSCC in addition to all other charges for M1. This results in Metalore receiving less for the commodity than customers pay for the same commodity, which acts to cross-subsidize in-franchise customers as long as the benefits of paying Ontario producers less than the market price flow to in-franchise customers through a lowering of the TGSCC.

Other cross-subsidies or benefits to the system that should be considered by EGI when developing a reasonable rate for OEB approval include avoidance of fuel gas associated with the transmission system. Ontario-produced gas flows directly to customers and therefore acts to reduce total fuel gas to operate the transmission system. The same effect is also present with respect to carbon tax associated with the transmission system and operations and maintenance costs associated with the transmission system. Currently, many of the benefits of Ontario gas production into EGI's distribution system are not factored into EGI rates.

b) Please confirm that the current price paid to producers under a GPA is the ICE NGX Union-Dawn Month Ahead Bidweek price.

<u>Response:</u>

Confirmed

M7-EGI-2

<u>Reference:</u>

Exhibit M7, page 6

<u>Preamble</u>:

At page 6, OPI states:

"The OPI is of the opinion that these increases for certain producers will contribute to insolvencies and could lead to additional orphaned wells in the province, which then either become the responsibility of the government of Ontario or the affected landowner(s), if companies and individuals in care and control do not have funds to decommission wells."

<u>Question(s):</u>

a) Please confirm that pursuant to the *Oil Gas and Salt Resources Act* and regulations (OGSRA), it is the responsibility of the Ontario producer/well operator to establish and maintain security in prescribed amounts in order to maintain the validity of well licenses, remedy situations where the works may represent a public or environmental hazard and properly plug wells or complete works in accordance with the OGSRA.

<u>Response:</u>

Please see excerpt below from section 16 of Ontario Regulation 245/97 Exploration, Drilling, and Production.

(2) A well licence shall not be issued to a person who has not established a trust fund in accordance with this section. O. Reg. 245/97, s. 16 (2); O. Reg. 22/00, s. 5 (2).

(3) Subject to subsection (4), well security required for each operator is,

(a) $0 for each licensed oil well that is registered as part of an oil field having historical oil field status;

(b) $0 for each private well;

(c) $0 for each licensed hydrocarbon storage cavern well located on land as long as the operator owns both the surface rights and the mineral rights;

(d) $3,000 for each unplugged well located on land drilled to less than 450 metres in depth;

(e) $6,000 for each unplugged well located on land drilled to a depth greater than 450 metres but less than 800 metres;

(f) $10,000 for each unplugged well located on land drilled to a depth greater than 800 metres; and

(g) $15,000 for each unplugged well located in water covered areas. O. Reg. 245/97, s. 16 (3); O. Reg. 22/00, s. 5 (3).

(4) The maximum security required is,

(a) $70,000 for unplugged wells located on land; and

(b) $200,000 for unplugged wells located in water covered areas.

(5) Each operator shall maintain the prescribed security at all times. O. Reg. 245/97, s. 16 (4, 5).

(6) The operator shall not adjust the security without the Minister's consent. O. Reg. 22/00, s. 5 (4).

(7) All well licences of an operator who allows the amount of well security to fall below the prescribed level are not valid.

(8) When establishing security, an operator shall ensure that the fund trustee,

(a) does not make any payments out of the trust fund without the written consent of the Minister; and

(b) follows the directions of the Minister with respect to payment out of the trust fund.

(9) The Minister's directions to the trustee of an operator's security trust fund are limited to directing payments to remedy a situation where a work represents a hazard to the public or environment or an operator does not properly plug a well or complete works in accordance with the Act and regulations or in accordance with an order of the Board or the Tribunal. O. Reg. 471/17, s. 1.

As you can see bond requirements depend on depth of wells with a maximum per operator regardless of the number of wells operated of $70,000 on land and $200,000 in water covered areas. Costs to plug and decommission wells are often many times more costly than bonded amounts per well.

b) Please confirm that all OPI members who are licensed well operators are in compliance with the OGSRA requirements to have sufficient security in place as set out in part a). If not confirmed, please provide the status of any OPI member non-compliance in this regard and what actions the OPI member or government authority is taking to remedy the non-compliance.

Response:

OPI does not collect this information from its membership as an industry organization. As outlined above security requirements are not aligned with actual costs to decommission wells therefore operators can be in compliance without having sufficient funds on-hand to decommission wells.

M7-EGI-3

Reference:

Exhibit M7, pages 3-4
RP-2003-0063/EB-2004-0542, Decision with Reasons, May 19, 2005, page 10

Preamble:

The other cross-subsidies listed above are avoided costs associated with Ontario production for both M13 and GPA contract holders. These avoided costs reduce the costs that need to be recovered from in-franchise customers for fuel gas, carbon tax, and operation and maintenance.

As part of the Rate M16 Rate Schedule proceeding, the OEB approved the use of the transmission commodity charge for Rate M16 customers. The transmission commodity charge is charged to both Rate M16 and Rate M13 customers to provide a contribution towards the use of Enbridge Gas's transmission system. As part of the Decision with Reasons, the OEB stated "that it is the contractual, not the physical flows that should govern ratemaking".

The Rate M13 service provides transportation service from the local production point to Dawn. The producer can sell the gas to any number of market participants at Dawn. Any daily imbalances between the measured production and the gas sold at Dawn is tracked in a balancing account at Dawn.

Question(s):

a) Please confirm that the transmission costs referenced at Exhibit M7, pages 3 and 4, are applicable to Rate M13 customers and are not recovered from GPA contract holders.

Response:

Confirmed. Although it should be noted that GPA transportation and balancing charges were levied against Ontario producers with GPAs in the past two decades. These charges were changed as a result of concerns expressed by OPI through a series of meetings facilitated by Board staff as a result of submissions by OPI in EB-2019-0137

b) Please confirm that Enbridge Gas's system is required to provide producers access to Dawn on a contractual basis.

Response:

OPI does not believe that EGI's system is required to provide producers access to Dawn on a contractual basis. OPI producer molecules displace molecules that would otherwise need to come from Dawn in the distribution system. Displacement could more appropriately be used to provide producers access to Dawn contractually as this would reflect and align with gas movement in the distribution system physically.

Ontario producers only need access to consumers in order to sell their gas. Since Ontario consumes far more natural gas than it produces, and since Ontario producers are proximate to end-use customers, producers should not have to (and factually do not) move gas upstream ()to sell their gas. Ontario producers only move gas to Dawn because they cannot achieve pricing approximating market price downstream of Dawn in the localities where the gas is consumed. If Ontario producers could achieve fair pricing, there would be no need to effect this mythical transport to Dawn. Receiving displaced molecules back at Dawn, with no fees levied would be a fair alternative as gas is counterflow 365 days a year for Ontario producer production and acts as a benefit to the system, thereby requiring less gas to come in and out of storage or travel along the transmission system.

M7-EGI-4

Reference:

Exhibit M7, page 6
Exhibit JT8.14

Preamble:

At page 6, OPI states:

"Neither of these outcomes is a desirable or necessary result of these station rates being increased so substantially, especially when a cost of service study addressing these variables is lacking specificity or reasonableness."

Enbridge Gas has provided a detailed calculation of the total annual operating and maintenance costs per customer station at Exhibit JT8.14.

Question(s):

a) Please specify what information or detail, in addition to the information provided at Exhibit JT8.14, is missing?

Response:

EGI has not provided the frequency of required visits with reference to a standard that establishes that frequency. The total hours of direct costs represent almost 3 full days annually (not including painting or weeding). This level of commitment does not match OPI members' experience.

OPI has polled Producers about EGI's Direct Station cost estimates for both Typical and Large Customer Stations. Producers have indicated that the hours allocated in EGI's cost estimate for Compliance Inspection (14 hrs for Typical Stations, 35 hrs for Large Stations) and Maintenance (5 hrs for Typical Stations, 14 hrs for Large Stations) far exceed how often Producers typically see EGI field technicians at any of their Custody Transfer Stations. Since all Indirect Cost estimates are derived based on the Direct Cost estimates which include inflated labour estimates as detailed above, EGI's M13 Fixed Cost estimates do not reflect what is occurring in the field.

In addition, EGI has "determined" an allocation factor of 55% of direct costs for the indirect costs of General Operations & Engineering. However, the general operations should be part of the Direct Costs determined in the Compliance Inspection & Maintenance. Further, since the station is built by EGI and paid for by the producer, there should not be additional Engineering costs. The determination of 55% is not explained nor established in priniciple or precedent in the evidence and, given the above, excessive.

b) Please confirm that the monthly customer charge of $90 paid as part of the GPA has not increased over 20 years.

Response:

Confirmed. Some Ontario producers delivering to legacy EGD or other utilities are not charged a station fee at all. It is OPI's position that EGI should not levy monthly station fees or transmission fees in order to recognize the cross-subsidies, counter flow and other benefits that local Ontario production brings to the province and the gas system.