ONTARIO PETROLEUM INSTITUTE

Responses to Interrogatories from Ontario Energy Board Staff

M7.Staff-1

Ref: Exhibit M7, pages 3-4 and Appendix 1

Enbridge Gas Inc. January QRAM application, EB-2022-0073, Exhibits E-2-1 page 1 and E-2, Rate Order, Appendix A, page 6

In Appendix 1, the Ontario Petroleum Institute (OPI) provides a table that lists the price differences between the Total Gas Supply Commodity Charge (TGSCC) in the Union South Rate zone that is charged to customers by Enbridge Gas, and the Gas Purchase Agreement (GPA) price paid by Enbridge Gas to Ontario producers selling under a GPA contract. OPI notes that the mean difference in the price from January 2015 to March 2023 is 54 cents per GJ. OPI asserts that this price difference represents a cross-subsidy from Ontario producers to Enbridge Gas's in-franchise customers.

a) Please confirm that the TGSCC for Union South is the sum of (i) a commodity and fuel cost charge and (ii) a commodity and fuel price adjustment, and that the commodity and fuel cost charge includes a Gas Optimization Margin Credit and an administrative charge. If not, please explain.

RESPONSE

Based upon our understanding of the TGSCC this is Confirmed.

b) Please explain how the price difference between the TGSCC and GPA price represents a cross subsidy.

RESPONSE

EGI pays local producers less for molecules of gas delivered to the distribution system than it charges in-franchise customers for the same molecules. This results in a lowering of the TGSCC which subsidizes in-franchise customers. Please see Attachment 1 for a graph and table showing the TGSCC vs. GPA producer price from January 2015 to present.

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 reduced cost) and that there can only be two sources of gas, the utility-procured gas from outside Ontario or the Ontario 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 price charged by EGI in the market (the distribution system), which is the TGSCC.

M7.Staff-2

Ref: Exhibit M7, pp.4-5

OPI notes that the use of local natural gas results in reduced fuel gas usage by compressors in the transmission system, lowering fuel gas and carbon tax costs.

Has OPI attempted to quantify the expected energy savings associated with the use of local natural gas, and the cost savings arising from reduced fuel gas and carbon tax costs on a $/GJ basis? If so, please provide details.

RESPONSE

EGI estimates an average of 452,500 GJ per year from Ontario producers delivering gas to EGI under GPA contracts between 2019 and 2024. We estimate that Ontario conventional natural gas producers deliver approximately 2,570,000 GJ per year of conventional natural gas in EGI distribution network using the M13 contract and gas exchange agreement at EGI's Lake Erie gate station. Approximately 3,022,500 GJ per year of conventional natural gas enters EGI's distribution network downstream of EGI transmission and storage assets. If this were multiplied by EGI's per GJ fuel consumption within the transmission and storage system an energy savings associated with the use of local natural gas could be calculated. The cost of this energy could be attained by multiplying this local production volume by the transmission fuel gas and the carbon tax saved.

Using the throughput data from Exhibit I.4 FRPO-97, plus T1, T2 and T3 forecast from Exhibit 3 (Tab 2, Sch. 8, Attach. 1, Pg. 2), we estimate that the company used gas, compressor fuel and UFG is estimated at 2.35%. Multiplying that percentage by the estimated annual projection yields just over 71,000 GJ's which when multiplied by approximately $9/GJ for the combined TGSCC of $5.78 for Union South and carbon cost of about $3.33 equates to approximately $640,000 per year.

The energy and cost savings outlined above more than compensate EGI for its operating and maintenance costs associated with both typical and large producer stations which are outlined in Exhibit 8 (Tab 2, Sch. 9, Attach. 14, Pg. 1) and total $483,000 annually. It should also be noted that the total for large producer stations consists of a majority of RNG producers whose fuel savings have not been incorporated in the $640,000 per year figure in the paragraph above.

M7.Staff-3

Ref: Exhibit M7, page 6

OPI states that it is concerned that an increase in monthly station fees for GPA holders from $90 to $469 or $1062 is likely to cause several local producers to stop delivering gas into Enbridge Gas's distribution system.

In the context of Enbridge Gas's proposed increases to monthly GPA producer station fees, OPI states that "… a cost of service study addressing these variables is lacking specificity or reasonableness."

a) In what year was the $90 per month station fee initially implemented?

RESPONSE

We were not able to determine the year that the $90 was implemented but were able to find a document that shows the $90 being applied to a payment list for the month of February 2000.

b) Please confirm whether OPI believes that $90 per month per station charge is sufficient to cover Enbridge Gas's costs to operate and maintain the GPA producer stations.

RESPONSE

OPI does not believe that the $90 per month on its own is enough to cover EGI's costs to operate and maintain the GPA producers' stations, however OPI believes that the cross-subsidies and other benefits from local production more than compensates EGI for its costs to maintain GPA and M13 stations for local producers.

If the goal of a cost allocation study is to properly assign revenues and costs amongst rate classes and to achieve a 1 to 1 revenue to cost ratio, then OPI does not believe that it is necessary to charge monthly station fees to GPA and M13 holders. EGI has not considered any revenues when developing its proposed GPA and M13 rates, it has only considered its cost to maintain the stations and has proposed to recover that cost through monthly station charges.

The fact that EGI pays local producers less for gas molecules delivered into the distribution system than the price EGI charges customers for the same molecules is a revenue that is not considered in the revenue to cost ratio of 7.151:1 for GPA and M13 holders. Nor is the fuel gas saved and carbon tax on fuel gas saved estimated at $640,000 per year considered in the already too high 7.151:1 ratio.

What is considered in the 7.151:1 ratio which we believe contributes to the excess revenue for the rate class is transmission costs for M13 from the producer station to Dawn. In reality, those gas molecules act as counterflow and are absorbed in the local distribution network and do not make it to Dawn. The result is a reduction in flow and resulting cost for gas to move from Dawn to the market where the molecule is consumed in the distribution system.

EPCOR's Lakeview station and EGI's own Lake Erie gate station are far more reasonable examples where no monthly station fees are levied to recognize the locational benefit of the local production in the distribution system proximate to customers who consume the gas.

c) Please confirm whether OPI believes that Enbridge Gas's in-franchise customers ought to subsidize the operating and maintenance costs of the GPA producer stations. If so, please explain why.

RESPONSE

OPI does not believe that EGI in-franchise customers ought to subsidize GPA or M13 producer stations but OPI also believes that local producers should not have to subsidize in-franchise customers either. In a cost allocation study OPI believes that a 1:1 revenue to cost ratio would be reasonable. OPI believes that it is not reasonable to look at only the costs and not the benefits (revenues) when determining appropriate rates. EGI in its evidence Exhibit 8 (Tab 2, Sch. 5, Pg. 2) states that the net revenue for these ex-franchise services flow as a benefit to in-franchise rate classes through storage and transportation margin, which acts to subsidize in-franchise customers. This is an admission that there is excess revenue in the rate class and that the subsidy flows from the local producers to the in-franchise customers and not the other way around.

OPI believes that EGI uses the postage stamp argument when convenient to force local producers into categories that they do not fit in. Then when not convenient EGI abandons the board approved cost allocation study method to estimate monthly costs associated with local producers' stations while ignoring any off-setting revenues and cross-subsidies in addition to environmental and societal benefits.

d) Please confirm whether OPI believes that a fully allocated cost of service study (also referred to as a cost allocation study) should be used to help determine the amount of station fees. If not, please explain.

RESPONSE

Yes a cost allocation study should be used and all factors including offsetting benefits should be considered. In Exhibit 8 (Tab 1, Sch.3, Attach. 1, Pg. 1) EGI notes referring to GPA and M13 rate class (E80) that "Revenue-to-cost ratios for certain ex-franchise rate classes exceed 1.0 as there are minimal, or no costs allocated through the Cost Allocation Study. Rates for these rate classes are not based on an allocation of costs but rather, through the rate design process, a reasonable rate for the service is derived to provide a contribution towards the recovery of fixed costs." This suggests that EGI has abandoned the use of the Cost allocation study in determining reasonable rates for local producers.

The OPI believes that revenues, benefits and cross-subsidies should be considered in addition to costs when determining a reasonable rate to charge M13 and GPA producers.

e) Please elaborate on how Enbridge Gas's cost of service study is lacking specificity or reasonableness. Please provide specific examples, if possible.

RESPONSE

Indirect costs associated with Engineering at 55% of direct costs seem to be arbitrary. Local producers pay the capital cost for stations that are built to deliver gas to EGI. Why is there such a high ongoing engineering overhead carried by OPI when it already pays for this as part of the capital cost of building stations. Why has EGI chosen 55% is this reasonable?

f) Please confirm whether OPI is in favour of different station fees for different station types (i.e., with or without a remote terminal unit). If not, please explain.

RESPONSE

OPI confirms that members are in favour of different station fees for different station types. Some local producer stations are very small and simple.

g) Please confirm that local producers have the option of selling their gas at Dawn rather than selling to Enbridge Gas under a GPA.

RESPONSE

Confirmed but the disproportionate number of producers choosing GPA is an indication that M13 higher fixed monthly costs and "accounting" gas transfer to Dawn creates an economic barrier for all but the largest producers. Additionally, if local producers could achieve pricing that reflects the locational value of their gas, downstream of Dawn and transmission and in proximity to end use customers, there would be no need for local producers to move gas on paper to Dawn to achieve slightly better pricing than that which EGI offers for GPA producers.

M7.Staff-4

Ref: OPI Evidence, Appendix 2 GPA Holders Concerns and Comments, Chatham Resources Limited

Chatham Resources Limited explains that it provides natural gas to "many families", that excess production is sold to Enbridge Gas, and that the income from Enbridge Gas is essential to the viable operation of Chatham Resources Limited.

Please confirm whether Chatham Resources Limited relies on income from Enbridge Gas to subsidize the service Chatham Resources Limited provides to its residential customers.

RESPONSE

The OPI understands that Chatham Resources Limited (CRL) runs a business where it provides gas to residential customers connected to gathering lines from wells CRL operates. The excess gas produced from the wells is sold to EGI at 3 GPA meter sites as outlined in their letter dated April 20th, 2023. The OPI understands that the revenue to operate wells, decommission at end of life, and operate its system along with paying EGI charges, comes from the sale and delivery of natural gas to customers in addition to the sale of natural gas commodity to EGI. OPI does not have information on how CRL runs its business in terms of funding for the services it provides.

M7.Staff-5

Ref: OPI Evidence, Appendix 2 GPA Holders Concerns and Comments, Cameron Petroleum Inc.

Cameron Petroleum Inc. lists five Enbridge Gas meter stations and the number of Cameron Petroleum Inc. owned wells that feed into each station.

a) Are each of the listed stations used exclusively by Cameron Petroleum Inc, or do other local producers share these stations?

RESPONSE

The OPI understands that the 5 meter stations listed by Cameron Petroleum Inc. are used exclusively by the company and other local producers do not share these stations.

b) If the stations are shared, who are they shared with and how are the monthly station fees allocated to the various users?

RESPONSE

The OPI understands that the 5 meter stations listed by Cameron are not shared. The stations have been in place for many years and the producer paid the capital costs associated with station construction.

M7.Staff-6

Ref: OPI Evidence, page 6 and Appendix 2 GPA Holders Concerns and Comments

OPI opined that the increases in monthly station fees will contribute to local producer insolvencies and could lead to additional orphaned wells in the province. Further, if the companies and individuals in care and control of these wells do not have funds to decommission them, then these orphaned wells would either become the responsibility of the government of Ontario or the affected landowner(s).

In their letters of comment, several local producers noted that they are facing financial challenges and that an increase in monthly station fees could result in some wells becoming uneconomic. Some local producers said the increase in monthly station fees could "put us out of business." Several local producers noted that there could be an increase in well abandonments that one local producer said could become orphaned.

a) Please define the term "orphaned" as it relates to oil and gas wells.

RESPONSE

The OPI is unaware of a definition of orphaned well as it relates to the Ontario production industry in the Oil Gas and Salt Resources Act or underlying regulations. An orphaned well is generally understood to be a well where an oil and gas company is declared bankrupt, or cannot be located. In Ontario the OPI understands this to be a well without an operator as defined by the Oil Gas and Salt Resources Act.

b) Please confirm whether local producers are required to set aside funds for well abandonments. If not, please explain how well abandonments are generally funded.

RESPONSE

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.

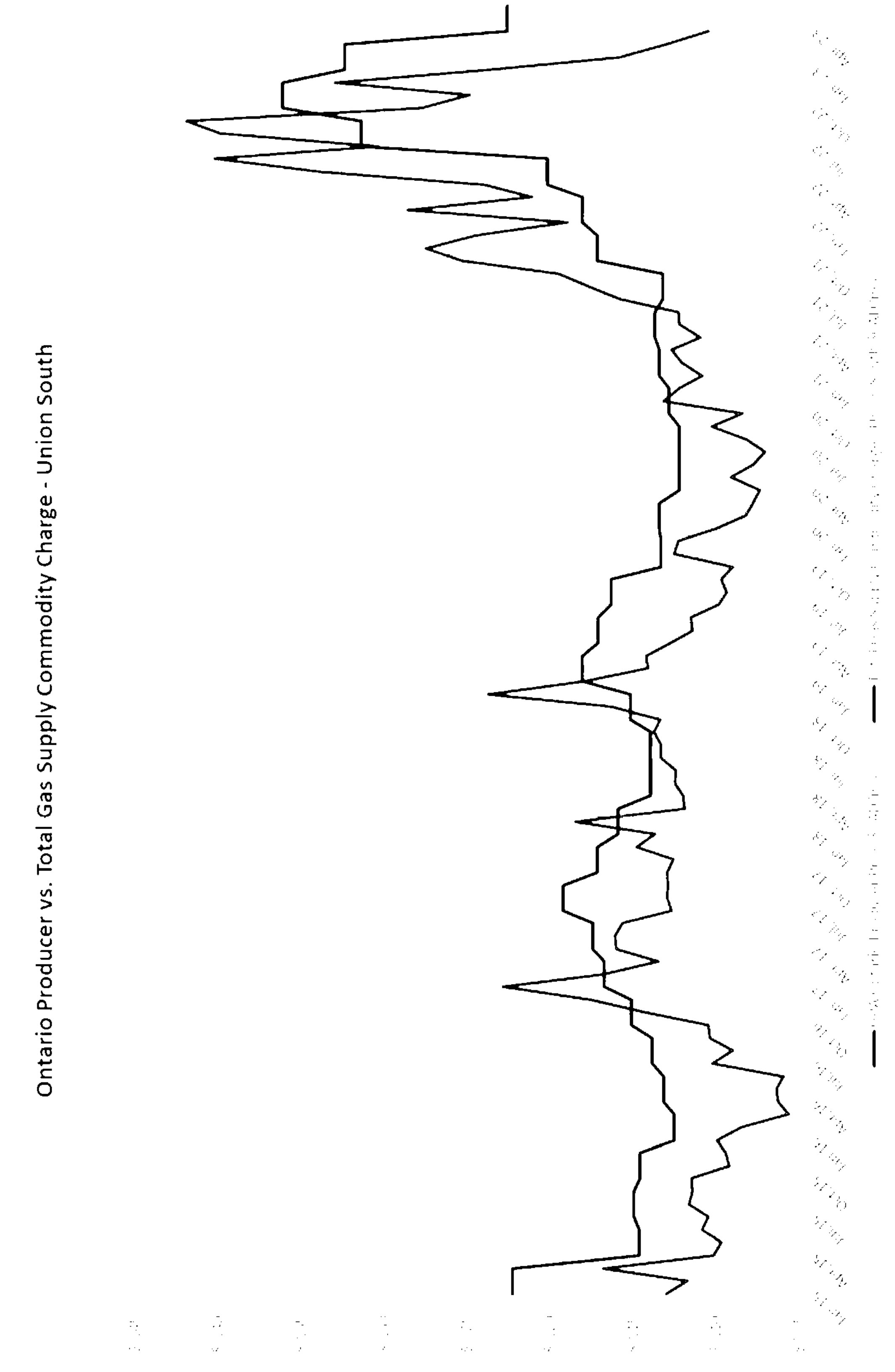
An issue is that required funds set aside for abandonments are not nearly sufficient to cover abandonment costs.

c) Does OPI believe that local producers should set aside funds for well abandonments? If not, please explain your response.

RESPONSE

Yes, OPI believes that local producers should set aside funds for well abandonments, however the funds should be set aside prior to drilling oil and gas wells. Updates to well bonding should grandfather existing wells.

ATTACHMENT 1



Year and Month	GPA Ontario Producer Price	Total Gas Supply Commodity Charge - Union South	Price Difference	Percentage Difference
-	$CAD/m3	$CAD/m3	Commodity less GPA	-
Jan,15	$0.129792	$0.222663	$0.092871	42%
Feb,15	$0.117273	$0.222663	$0.105390	47%
Mar,15	$0.167973	$0.222663	$0.054690	25%
Apr,15	$0.101751	$0.146561	$0.044810	31%
May,15	$0.097071	$0.146561	$0.049490	34%
Jun,15	$0.108498	$0.146561	$0.038063	26%
Jul,15	$0.104793	$0.149571	$0.044778	30%
Aug,15	$0.116376	$0.149571	$0.033195	22%
Sep,15	$0.114075	$0.149571	$0.035496	24%
Oct,15	$0.114699	$0.145900	$0.031201	21%
Nov,15	$0.092118	$0.145900	$0.053782	37%
Dec,15	$0.094146	$0.145900	$0.051754	35%
Jan,16	$0.099567	$0.125108	$0.025541	20%
Feb,16	$0.084942	$0.125108	$0.040166	32%
Mar,16	$0.056238	$0.125108	$0.068870	55%
Apr,16	$0.062673	$0.131678	$0.069005	52%
May,16	$0.063570	$0.131678	$0.068108	52%
Jun,16	$0.059670	$0.131678	$0.072008	55%
Jul,16	$0.102336	$0.138229	$0.035893	26%
Aug,16	$0.090051	$0.138229	$0.048178	35%
Sep,16	$0.103857	$0.138229	$0.034372	25%
Oct,16	$0.104559	$0.150958	$0.046399	31%
Nov,16	$0.141336	$0.150958	$0.009622	6%
Dec, 16	$0.175188	$0.150958	-$0.024230	-16%
Jan, 17	$0.228228	$0.167188	-$0.061040	-37%
Feb, 17	$0.168480	$0.167188	-$0.001292	-1%
Mar, 17	$0.134862	$0.167188	$0.032326	19%
Apr, 17	$0.160212	$0.174434	$0.014222	8%
May, 17	$0.161109	$0.174434	$0.013325	8%
Jun, 17	$0.156117	$0.174434	$0.018317	11%
Jul, 17	$0.127062	$0.192334	$0.065272	34%
Aug, 17	$0.129597	$0.192334	$0.062737	33%
Sep, 17	$0.129246	$0.192334	$0.063088	33%
Oct, 17	$0.129324	$0.171859	$0.042535	25%
Nov, 17	$0.126087	$0.171859	$0.045772	27%
Dec, 17	$0.148122	$0.171859	$0.023737	14%
Jan, 18	$0.136851	$0.159153	$0.022302	14%
Feb, 18	$0.184977	$0.159153	-$0.025824	-16%
Mar, 18	$0.119145	$0.159153	$0.040008	25%

Apr, 18	$0.119847	$0.139327	$0.019480	14%
May, 18	$0.124761	$0.139327	$0.014566	10%
Jun, 18	$0.124137	$0.139327	$0.015190	11%
Jul, 18	$0.133419	$0.139327	$0.005908	4%
Aug, 18	$0.133146	$0.139327	$0.006181	4%
Sep, 18	$0.137163	$0.139327	$0.002164	2%
Oct, 18	$0.133653	$0.151421	$0.017768	12%
Nov, 18	$0.162942	$0.151421	-$0.011521	-8%
Dec, 18	$0.237159	$0.151421	-$0.085738	-57%
Jan, 19	$0.179556	$0.180395	$0.000839	0%
Feb, 19	$0.140946	$0.180395	$0.039449	22%
Mar, 19	$0.142233	$0.180395	$0.038162	21%
Apr, 19	$0.127530	$0.171237	$0.043707	26%
May, 19	$0.114387	$0.171237	$0.056850	33%
Jun, 19	$0.115479	$0.171237	$0.055758	33%
Jul, 19	$0.098553	$0.162957	$0.064404	40%
Aug, 19	$0.093561	$0.162957	$0.069396	43%
Sept, 19	$0.096720	$0.162957	$0.066237	41%
Oct, 19	$0.090207	$0.133356	$0.043149	32%
Nov, 19	$0.125307	$0.133356	$0.008049	6%
Dec, 19	$0.122772	$0.133356	$0.010584	8%
Jan, 20	$0.100269	$0.134040	$0.033771	25%
Feb, 20	$0.082368	$0.134040	$0.051672	39%
Mar, 20	$0.078117	$0.134040	$0.055923	42%
Apr, 20	$0.073593	$0.121894	$0.048301	40%
May, 20	$0.091065	$0.121894	$0.030829	25%
Jun, 20	$0.078000	$0.121894	$0.043894	36%
Jul, 20	$0.070512	$0.121894	$0.051382	42%
Aug, 20	$0.081705	$0.121894	$0.040189	33%
Sept, 20	$0.102531	$0.121894	$0.019363	16%
Oct, 20	$0.084045	$0.128566	$0.044521	35%
Nov, 20	$0.131430	$0.128566	-$0.002864	-2%
Dec, 20	$0.122226	$0.128566	$0.006340	5%
Jan, 21	$0.108420	$0.134224	$0.025804	19%
Feb, 21	$0.120822	$0.134224	$0.013402	10%
Mar, 21	$0.126672	$0.134224	$0.007552	6%
Apr, 21	$0.109668	$0.137086	$0.027418	20%
May, 21	$0.122265	$0.137086	$0.014821	11%
Jun, 21	$0.122538	$0.137086	$0.014548	11%
Jul, 21	$0.158145	$0.132272	-$0.025873	-20%
Aug, 21	$0.177177	$0.132272	-$0.044905	-34%
Sep, 21	$0.194961	$0.132272	-$0.062689	-47%
Oct, 21	$0.253188	$0.171480	-$0.081708	-48%
Nov, 21	$0.274833	$0.171480	-$0.103353	-60%

Dec, 21	$0.244959	$0.171480	-$0.073479	-43%
Jan, 22	$0.189462	$0.180529	-$0.008933	-5%
Feb, 22	$0.285558	$0.180529	-$0.105029	-58%
Mar, 22	$0.210834	$0.180529	-$0.030305	-17%
Apr, 22	$0.239733	$0.201518	-$0.038215	-19%
May, 22	$0.339027	$0.201518	-$0.137509	-68%
Jun, 22	$0.402129	$0.201518	-$0.200611	-100%
Jul, 22	$0.303966	$0.313751	$0.009785	3%
Aug, 22	$0.399126	$0.313751	-$0.085375	-27%
Sep, 22	$0.419172	$0.313751	-$0.105421	-34%
Oct, 22	$0.277602	$0.360910	$0.083308	23%
Nov, 22	$0.248625	$0.360910	$0.112285	31%
Dec, 22	$0.329706	$0.360910	$0.031204	9%
Jan, 23	$0.235872	$0.323821	$0.087949	27%
Feb, 23	$0.158691	$0.323821	$0.165130	51%
Mar, 23	$0.130299	$0.323821	$0.193522	60%
Apr, 23	$0.104832	$0.225958	$0.121126	54%
May, 23	_	$0.225958	_	_
Jun, 23	_	$0.225958	_	_