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APPrO
ASSOCIATION OF
POWER PRODUCERS
OF ONTARIO

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Association of Power Producers of Ontario (APPrO)
**Comment on the Staff Discussion Paper (July 29th 2008) on the Storage and
Transportation Access Rule**
(EB 2008-0052)

The Ontario Energy Board's (OEB) Decision on the Natural Gas Electricity Interface Review - EB-2005-0551 (NGEIR), released November 7, 2006 outlined the key requirements that need to be addressed in a Storage and Transportation Access Rule (STAR). OEB Staff has undertaken an initiative to investigate the potential terms that might be contained in a STAR. Staff released a discussion paper dated July 29th, 2008 that contained potential elements of a STAR and have requested comments from interested parties on this discussion paper. APPrO has participated in earlier STAR consultation sessions and welcomes the opportunity to provide the following written comments on the recent discussion paper.

APPrO is a non-profit organization representing more than 100 companies involved in the generation of electricity in Ontario, including generators and suppliers of services, equipment and consulting services. APPrO members produce power from co-generation, hydro-electric, gas, coal, nuclear, wind energy, waste wood and other sources. APPrO's members currently produce over 95% of the electricity made in Ontario.

1. APPrO agrees that it is appropriate at this time to introduce certain rules related to access to storage and transportation services in Ontario to i) help ensure that there is no discriminatory or unfair access to storage and transportation services and ii) to

help ensure that there is an open, fair and where applicable competitive marketplace.

2. Section 2.1 Allocation of Transportation Capacity

- a. APPrO believes that there should be clear procedures for allocation of capacity for all transportation services. Offering capacity through an open season is a common approach to providing notice to the industry that capacity will become available and interested parties have the opportunity to bid for it. APPrO believes that an open season process is appropriate for terms one year or longer. The shorter the desired term of the contract the less the open season process is appropriate. Dispatchable power generators, or their gas suppliers, are expected to be users of short term services. They are likely to purchase gas at Dawn or upstream locations and will require transportation of the gas to Dawn to allow for subsequent transportation of gas to the plant for ultimate consumption. Given that these dispatchable generators will need to make a commitment to generate on short notice and arrange gas supply accordingly, having the ability to firstly know that transportation capacity is available and then make the commitment for that capacity (and resulting gas supply) is important to help ensure the reliability of gas-fired generation. The transportation access procedures should therefore keep in mind the need to make these commitments. Using an open season process for firm transportation for 1 day at a time may not be efficient for either the pipeline operators or the generators. A first come first serve type of allocation process may better meet this need. APPrO believes that for transportation services less than 1 year that an open season may not best serve this market requirement and a process like a first come first serve would be a more efficient mechanism for allocating capacity. Similarly for firm transportation service for either existing or new capacity, for contract periods of 1 year or longer, generally provide more time and an open season process is the appropriate mechanism to allocate transportation capacity. For interruptible services, APPrO understands that shippers may have long term interruptible contracts, but may only choose to use to use them periodically. Capacity would be nominated under these interruptible contracts as the need arises and if insufficient capacity is available to all interruptible shippers that have nominated capacity along a particular route that capacity is allocated to

these interruptible shippers first on an economic basis and then on a pro-rata basis. APPrO therefore believes that it is not necessary to employ a more detailed allocation process for interruptible contracts.

- b. APPrO believes that the ultimate procedures employed for all transportation services should be clear and part of the tariffs of the respective service and made available in the utilities website.
- c. APPrO also agrees that there should be a regular schedule when open seasons are held for capacity. APPrO does however note that the Province of Ontario has an initiative to add several new gas-fired generation plants. The process to have these plants developed is administered by the Ontario Power Authority (OPA). The OPA's process enter into arrangements to have plants built and on line may not coincide with the utilities open season schedule and therefore APPrO recommends for these and other similar large projects, that the utilities have flexibility to conduct additional open seasons, at the request of prospective customers, in a manner that will help ensure capacity will be available in a timely fashion.
- d. APPrO agrees that there should be minimum standards for open seasons.
 - i. APPrO also suggests that in addition to any minimum term, any other conditions including any conditions precedent (e.g. threshold volume to develop new capacity) also be made known as part of the open season package. There also needs to be greater clarity and uniformity on the terms of service and polices related to expansion. APPrO is concerned that in the past certain services like Union's M12 have been subject to a variety of vague preconditions. In their current binding open season, as an example, Union conditions the expansion of their Dawn-Trafalgar system on the outcome of an appeal of an OEB decision for an unrelated matter.

“Such an expansion would require approval by the company's board of directors based on an assessment of the investment climate in Ontario. A key element of that assessment will be the Ontario Energy Board's upcoming decision on the company's appeal of long-term revenue sharing.”

The open season document also outlines the importance of the Dawn-Trafalgar system to the markets in Ontario, yet this 'precondition'

threatens the timing and the very development of any system expansion. Power generators are themselves bidding into OPA requests for proposals for new generation capacity thereby making firm commitments to develop new generation to help ensure the security of the Ontario power system. These power developments will require these types of transportation services. These bids by generators to the OPA need to be submitted in advance of knowing if any capacity will be added by Union. The binding nature of any bid required to be submitted by a shipper to Union also makes it very difficult to develop alternate transportation solutions should Union subsequently decide not to expand its system. These types of preconditions result in a high degree of uncertainty and financial exposure to power generators not knowing if and when such developments may occur. Greater consistency and clarity is needed for all parties to better understand the terms and conditions around open seasons and expansion policies.

- ii. As noted by Staff it is also important to have reverse open season to allow for existing parties to turn back unwanted capacity prior to any new capacity being developed. The details surrounding any reverse open season should also be clear, including on how these will be evaluated, and included in all open season documents.
- iii. APPrO agrees that there needs to be transparency in the marketplace. This is a necessary condition to establishing an open and efficient marketplace to eliminate the asymmetry of information. Reporting of prices for all contracts is important. These prices should also be accessible for at least a 3 year period after the respective open season.
- iv. Staff have proposed 2 options to assist market participants to assist their purchasing decisions, including setting a reserve price for service and establishing a recourse rate. It is not clear if Staff is proposing that both conditions would apply or just one or the other. It is also not clear if the recourse rate were used as a fallback rate, as well as a negotiated rate how would capacity be allocated under such

arrangements if the need arose. Moreover, these prices or rates should be founded on standard rate making principles.

- e. Staff has asked if utilities should post standard terms and conditions for various services. APPrO supports the requirement for utilities to not only have standard terms and conditions that apply to specific services, but also to the extent that any preconditions exist with regard to entering into an agreement that such preconditions also be clearly identified such that all parties know in advance that such conditions exist. APPrO notes that in order to get a comprehensive view of what the service terms and conditions are today, customers often have to look to a variety of sources to look for the applicable terms and conditions. These could take the form of contracts, general terms and conditions, rate schedules or rate handbooks, nomination schedules, company policies, decisions that the OEB has made overtime with respect to various operating practices and various written and unwritten operating practices. APPrO believes that the collective information that governs the terms and conditions of a contract are far too disbursed and need to be consolidated into fewer documents. These should all be posted for all services on the company's website.
3. Section 2.3 New Transportation Services
- a. APPrO agrees that utilities should continue to be developed and offer new services into the marketplace to help ensure a vibrant and competitive marketplace. These services should be developed to help integrate services between utilities as well as integrate services from outside the province. Artificial barriers to a competitive environment should be eliminated or minimized.
 - b. APPrO also agrees that offering bundled services from the utilities can be an efficient means of delivering services to the marketplace. This however should not preclude the ability to unbundle such arrangements to allow for contracting of the individual components of the service. This will help to keep all aspects of the service competitive as well as help to create a secondary market for the services allow customers to choose the services they want and value the most.

4. Section 3 Consumer Protection in the Competitive Storage Market
 - a. The provisions outlined by Staff including transparency, non discriminatory practices and fairness are important principles to help ensure access to competitive storage. Clear rules about how and when capacity is to be allocated are also important to ensure that capacity is not withheld from the market that might have the effect of impacting the marketplace. APPrO notes that one of the outcomes of the NGEIR decision was that large generators could access higher rates of deliverability to meet their dispatch requirements at market based rates under Union's T-1 service due to the no notice nature of the service. The market based deliverability component would be added to and integrated with the cost based space allocated to the customer under its distribution service. The rate for this high deliverability component of the storage would be based on the last open season held to award capacity. APPrO is concerned that the timing of the need for these services is well known and that:
 - i. Capacity can be added, or made available to generators without the need to have open seasons which could result in the use of outdated market information to set the price of the deliverability component for generators. The decision to hold an open season for this type of service would be at the discretion of the utility.
 - ii. Open seasons for high deliverability (ie no space) have not historically been the norm. Open seasons for high deliverability storage generally incorporate a space component. If these market prices are to be used for helping to establish the market price of the high deliverability only component of the storage service, then this must be done in a consistent, transparent and fair manner to ensure there is no manipulation of prices.
 - b. APPrO in general supports standard terms and conditions within storage contracts. This allows for easier administration and development of a secondary market that is important for an efficient marketplace. This standardization however should provide for some of the basic parameters of a storage agreement such as space, injection and withdrawal rights, receipt and delivery point to be individually determined between the parties.

- c. APPrO is supportive of the requirement to report market prices from storage open seasons. One key element of having an open and efficient marketplace is the need for transparency. Without the reporting of this information parties wishing to bid on future storage will have no historical information to help understand how other parties value storage which will be important to place a bid for any new storage in an open season or in any secondary transaction. It is understood that parties to the transaction may prefer that this information was not made public, however this information should be disclosed for the following reasons:
- i. Staff note in their report that this information is made public under the FERC rules for parties wishing to secure market based storage in the US. Parties therefore bid on storage services knowing that if they are successful, their pricing will be disclosed. This has not seemed to detract from storage being fully sold or from the development of a competitive marketplace. APPrO is not opposed to reporting information that is either a blend of prices, like a weighted average of such prices, or providing individual prices but not having prices linked to specific customers.
 - ii. As noted above, the price of deliverability used for generators in their contracts, is determined from market prices. Having the transparency of this information helps to ensure fairness in the process.
 - iii. The Board has indicated in the NGEIR decision that it supports the development of new storage within the province. The forbearance decision on storage rates was as least in part designed to encourage new storage to be developed. Without access to real market information on the value of storage, new storage operators may be discouraged from investing in storage developments. Incumbent operators will have this information and it may lead to a concentration of market.
 - iv. Michigan storage operators like ANR Storage and Bluewater have indicated that they must report this information. If storage prices are not reported in Ontario then these operators may be at a disadvantage relative to Ontario storage operators.

- d. A parallel situation existed in the early days of gas price deregulation. Parties did not want to disclose the price of the commercial gas transactions. APPRO notes that these prices are now regularly disclosed at many transaction points across the continent and are reported on trading platforms like NGX (albeit in an anonymous basis). Prices of individual transactions are also regularly collected by 3rd parties and published as index prices at various trading points. These prices form an important part of the competitive marketplace.
- e. Storage operators have argued that disclosure of storage prices is not necessary as they can be inferred from the forward gas prices. This is in part true however these forward prices only reflect the intrinsic value component of gas prices and do not reflect any of the extrinsic value of storage which forms a key part of the total value of storage. Union in fact confirms this in an undertaking in EB2005-0551. In Exhibit B, Tab 1, UGL Undertaking 16 of Mr. Isherwood: "For Union Gas to provide the formula for the calculation of market based rates." Union replies on pages 1 and 2 of 4:

i. *"The theoretical market value of storage can be calculated using the following information. The true market value of storage has two components, the intrinsic value (theoretical calculation) plus the extrinsic value (a premium or discount to the theoretical value based on the actual value to the individual shipper)."*

ii. *The extrinsic value of storage*

This value is unique to each individual shipper and may be impacted by:

- *The shipper's risk profile,*
- *Market volatility and the Shipper's perceived ability to capture market opportunities,*
- *Operational flexibility – the value placed on the ability to storage gas for unplanned outages, weather swings, supply outages, and/or capture market savings,*
- *The location of the storage facility – the liquidity at that location, the supply diversity, the ability to acquire transportation to and from the storage facility, and the interconnection to other pipelines and other markets, and*

- *The ability to operate upstream transportation assets at 100% load factors. This may avoid having to resell pipeline capacity in the summer at a loss.*

It is impossible to estimate the extrinsic value of storage given that each individual shipper has their own unique circumstances.”

Clearly only actual market prices are market prices and the value of storage cannot be determined from forward prices. Market prices form valuable information and should be disclosed in some form to ensure transparency and to reduce information asymmetry.

- f. In addition to reporting market prices, reporting of information related to the quantity of the storage transactions would also assist in understanding the depth of the marketplace.
 - g. Utilities offer derivatives of storage products; these currently include upstream pipeline balancing service (UPBS) and downstream pipeline balancing service (DPBS). In the future as services evolve over time, these storage or balancing related products that are derivative of storage services should too be subject to the same reporting requirements as regular storage services.
 - h. As noted earlier, gas price influence storage values, however storage values will also have an influence on gas prices. Given the level of transparency of gas commodity prices in the marketplace, in order to better balance the market information, actual storage prices should be reported.
5. Section 4.1 Reporting Requirements - Principles
 - a. APPrO concurs that reporting should be streamlined and readily available to all parties on the companies' websites without the need to have to report this information to the Board.
 - b. APPrO understands the concern related to disclosing commercially sensitive information however this should not override the need to have a fully functioning efficient market place.
 6. Section 4.2 NGEIR Reporting Requirements
 - a. Staff have requested comments on the potential for Union to disclose how much of the 100 PJ of storage that is reserved for in-franchise markets, might be released in any year. APPrO supports the disclosure of this information

and represents important market information. This could represent a significant volume of capacity. In order to prevent the withholding of capacity, that might have an influence on the market, not only should the volume of storage be release be communicated but in addition the period of time that Union would hold its open season should be consistent from year to year. If Union determines through the year that additional volumes over and above what was reasonably planned to be released becomes available to the market, then this information should also be disseminated as soon as practical.

- b. APPrO suggests that information be reported on a similar timeframe and in a similar format. Storage operators could get together and offer a common format and timing that they each would agree to provide. The format should be as consistent as reasonable possible across all operators. Individual differences could be dealt with separately. This format could then be vetted by the Board as part of this process.
7. Section 5.3 Complaint Mechanism – Options
- a. APPrO believes that there needs to be a documented publically posted process to deal with complaints and concerns. APPrO also agrees that the process should be dealt with to the extent reasonably possible between the customer and the utility. There should however be an avenue for disputes that are not resolvable between the parties to be addressed in some form by the Board. Stating the principles that must be contained within the complaint process may be sufficient to address these concerns. It is recognized that the complaint processes for each electricity distributor is not approved by the Board but various complaint resolution principles must be incorporated by each utility. It is not clear if these procedures are not approved individually because of the sheer number of distributors or whether the Board prefers the utilities to have the flexibility to develop their own process to meet their organizational needs. In this case there would be very few complaint processes to approve, however provided the Board outlines clear principles that the utilities must adhere to and include in any procedures, APPrO is not opposed to this more streamlined approach. If this approach is however adopted by the Board, then the principles that are developed also need to incorporate the ability to deal with transportation and storage matters that are

non STAR related to ensure that if any unfair or discriminatory matters do arise that utilities have the necessary procedures to deal with such matters. If the Board chooses to approve these individual procedures, then they also need to incorporate these same issues.