

Summary

With good intent, the Board started the review of LDC supply considerations about 10 years ago initially by comparing the practices of the two large private gas utilities. During the development of the Framework, the utilities announced their intent to merge thus eliminating comparison as a means of testing. The merged and integrated utility has a massive scale and scope to manage reliable customer deliveries in an economic fashion. From FRPO's experience involved in the annual processes, we respectfully submit that the lack of quantifiable measures and the nature of the consultative process results in sub-optimal outcomes.

FRPO submits that the update process should include more quantitative evidence to support the choices that the utility is making on behalf of ratepayers. We believe that regulatory effectiveness would be achieved with additional quantitative evidence heard by a panel of commissioners. In our submissions below, using examples from this year's update and the past, applied to the realities of today, we respectfully request that the Board consider enhancing the process in these areas for such a time as this.

Introduction

FRPO has been very engaged in the evolution of how the Board oversees Gas Supply over the last 15 years. Included in that engagement was its involvement in the development of the Board's Gas Supply Framework ("Framework") culminating in the issuance of the Report of the Board¹ ("Framework Report"), which provides direction in these matters. That report outlined Guiding Principles along with process matters that were intended to allow an appropriate opportunity for discovery and oversight to ensure that the utilities' Gas Supply plans were in the public interest.

Over the last few years, FRPO has focused its efforts on informing the Board of its concerns about contracting on the Vector pipeline. We appreciate that the Board provided us with the opportunity and proceedings to lead discovery on this issue in the interest of informing the Board about ratepayer concerns. We respect that the Board allowed due process and encouraged improvement in the process in directing quantification of the costs of diversity.² We accept the Board's determination but still have some concerns regarding the Gas Supply value of this choice which we will cover in our views below.

Very importantly, the process to achieve understanding of the Vector choice was very cumbersome. We respectfully submit that the lessons learned from that process can be applied going forward. The Board has welcomed comments on the Framework and consultative process, and we will focus some of our submissions on this aspect.

¹ EB-2017-0129 Report of the Ontario Energy Board, **Framework for the Assessment of Distributor Gas Supply Plans** _20181025

² EB-2023-0326 dec_order_EGI_20240305_eSigned

The Conundrum of Pipeline Contracting

Quantifiable Assessment of Contracting Decision Ought to Mirror Purchasing Strategy

As noted in our introduction we are not disputing the Board's findings that the Vector contracting at issue last year was prudent. The Board accepted EGI's position that the Vector contracting added diversity to its portfolio. However, from a pure gas supply perspective, there is an additional cost to this diversity which has been provided and, in our understanding of EGI's commitment, will continue to be provided in future updates.³

In support of their position on Vector, EGI provided an analysis of Chicago natural gas pricing in their annual update for this year.⁴ We understand why EGI contracted ICF, the provider of its Landed Cost Analysis to try to reconcile their forecasted pricing and what the forward markets are forecasting for the price of gas at Chicago and Dawn. In our view, contracting for a review by an independent third party would have yielded a more objective assessment. Nonetheless, to ensure that we are true to the stated purpose, the last sentence of the Purpose section of the report states:⁵

This report discusses why ICF's expectations that the increase in Chicago forward pricing relative to Dawn is likely to be a short-term trend and why the diversity of supply provided by access to the Chicago market is important for Enbridge Gas.

Before we provide our simple response to this study, we want to provide context for our views. Gas supply planning in its essence is a risk management exercise. With any risk management, there are a number of trade-offs. One of those trade-offs is how much does one invest in mitigating potential high costs of unknowable events in the future. The determination of this level of investment in some form of insurance considers the amount of time between purchasing the insurance and the ultimate term or time frame that one is protecting. The longer the time frame, the greater the risk of the unknown resulting in the greater the cost of the insurance. The converse though is true in that with when the time frame is extremely short, the probability of unknown circumstances arising is very limited, thus reducing the perception of risk.

ICF acknowledges our views on this context in stating:

The Chicago hub is not the only natural gas price hub that has experienced an increase in the financial premium in its forward curve over the past couple of years. Natural gas forward prices are essential for the risk management and hedging strategies of natural gas market participants. They are often influenced by near-term market developments and associated trader sentiments, which

³ EGI_2024 Annual Update Gas Supply Plan updated 20240627, Appendix K, Table 1

⁴ EGI_2024 Annual Update Gas Supply Plan_updated 20240627, Appendix G

⁵ Ibid, page 3.

can occasionally lead to deviations from the underlying market fundamentals they represent.... In other words, natural gas market participants will be willing to pay the futures market premium to insure against extreme price increases.

During our pursuit of understanding the decision to extend and increase contracting of the Vector pipeline, among other things, we expressed concern over the divergence between the ICF forecast of the price differential between Chicago and Dawn and the trading of the forward markets. Throughout our exchange regarding Vector contracting, EGI expressed that “*forward market data is highly unreliable for longer terms, and represents transaction prices rather than forecasts of future prices*”.⁶ Instead, their view was that they should rely on a market fundamentals forecast from a sole provider without any test for reasonableness from other market sources. So, it is not surprising that EGI included the following quote from the ICF study in the body of its Update Evidence:⁷

The futures market, however, projects natural gas prices at Chicago to be at a significant premium to Dawn, which is out of sync with the day-ahead prices and market fundamentals given the placement of Chicago with respect to Dawn as well as the stable demand dynamics at both Chicago and Dawn.

...
Hence, ICF recommends that Enbridge Gas continue to base their longer-term re-contracting decisions on the market fundamentals represented by the day-ahead prices as well as the supply diversity and reliability benefits associated with access to an additional market center, rather than the near-term futures market trends.

Beyond the fact that the consultant is saying their product is superior and EGI being satisfied that the use of this tool has helped them accomplish their goals, we believe that this approach neglects one important factor: What price does the utility actually pay for its gas?

We explored this issue with EGI at the Stakeholder conference to review this Update. Through a lengthy discussion, it is clear that EGI uses a combination of approaches to mitigate risk for the purchase price of gas for the Vector transportation contract.⁸ In summary, through using different pricing approaches, EGI fixes components of the price at Chicago in their own way to avoid the risk of price spikes which may occur in January and February. While we respect their desire to avoid these spikes on behalf of ratepayers, these approaches use market mechanisms contracted with market participants who have their own perception of risk. This transfer of risk from the utility to the market participant comes at a cost to pay for that insurance. And the market’s

⁶ EB-2023-0072, Appendix F Updated, pages 3 – 4

⁷ EGI_2024 Annual Update Gas Supply Plan_updated 20240627, pg.39

⁸ REVISED 2024-07-02 Transcript EB-2024-0067 Stakeholder Conference, pg.161 line 16 to pg. 165, line 1

evaluation of that risk is informed by the forward market pricing that ICF tends to diminish in importance in its study. In our view, these approaches to purchasing and risk mitigation speaks to the need to use forward market pricing among other information in the choice of where and how to contract for the supply of gas.

EGI may argue that their approach to contracting mitigates this risk. While we accept that risk mitigation is good, the fact is, as ICF provides in the first paragraph in the conclusion section of its report, that even mitigating price risk in the short term can come at a significant cost:

Since early 2021, the Chicago and Dawn forward curves and bid-week prices have valued natural gas futures in the Chicago market at a premium relative to the forward curves and bid-week prices at Dawn. However, unlike the Dawn market, the futures market prices at Chicago generally have been out of sync with the day-ahead market prices. For example, the day-ahead price averaged \$3.24/MMBtu for Chicago and \$3.25/MMBtu for Dawn in January 2023, while the bid-week price that traded in December 2022 for January 2023 was \$6.04/MMBtu at Chicago and \$4.72/MMBtu at Dawn.

As provided by ICF in this example, forward market premiums are impacting the cost of gas even in the shorter term time frames that EGI is using to use market products to minimize the price exposure in January and February. This reality is an important consideration that has been lacking in the Gas Supply decision-making. We would respectfully submit that the inclusion of market information — such as forward prices — would enhance the utility decision-making.

Gas Supply Analysis Misses Key Opportunities in Risk and Cost Mitigation with IRPA

One of the insights that has been gained with the focus on Vector contracting in the Gas Supply plan is the value of deliveries on Vector to the Sarnia market area. This benefit was not strongly relied upon when we brought forward our initial concerns about the appropriateness of Vector contracting in the 2022 Update.⁹ Ironically, this benefit was only strongly evidenced in the 2023 Gas Supply proceedings in EGI's IRR's¹⁰ and Reply submissions.¹¹ As FRPO was not a participant in the last Sarnia market reinforcement,¹² this revelation was actually welcome news as it demonstrated that the utilization of this contract had broader ratepayer benefit than the diversification of supply source at incremental cost.

⁹ EB-2022-0072

¹⁰ EB-2023-0072 EGI_IRR_20230602

¹¹ EGI_ReplySUB_20230828, pg.11, para. 26 and pg.24, para. 66b)

¹² EB-2019-0218

In this year's update, EGI presented that, due to concerns over reliability of third-party supply on the Vector pipeline, they have contracted for a backhaul on the Vector pipeline from Dawn to St. Clair starting Nov. 1, 2024.¹³ We understand that this contract enables EGI to feed the Sarnia market if and when a market upset condition occurs and third-parties do not move gas on Vector to Dawn that EGI would use in Sarnia. We will not opine on that value as we have insufficient insight and evidence on the Sarnia market including changes in forecasted demand.

The more important point, from our perspective, is that the Framework and EGI's analysis does not attempt to evaluate the contribution that the Gas Supply plan can have to meeting the transmission and distribution demands of its customers. In the case of Sarnia, EGI is using deliveries on multiple pipelines to support design day demands in the market area. However, through an extensive discussion with EGI and their counsel, it is evident that they are not evaluating the facilities benefit.¹⁴ In response to our encouragement to consider these benefits going forward, EGI has officially communicated that they "*will not be proposing changes to the Framework and consultative process.*"¹⁵

FRPO respectfully submits that in these days of Energy Transition, the addition of facilities benefit to the analysis of supply options in the Framework would be an important and significant addition. These potential benefits have been addressed on an ad hoc basis in conjunction with Leave-to-Construct projects (e.g., Dawn-Parkway¹⁶ and Panhandle Regional Expansion¹⁷). However, given the nature of long-term contracting, we firmly believe that opportunities could be missed if the utility does not consider these options.

As much as EGI asserts that they are not proposing changes to the Framework, we would argue that without the facilities benefit, their acquisition of the Vector backhaul contract would be inappropriate. That contract does not enhance the supply of gas to Union South. However, the contract directly benefits the design day demand in the Sarnia market only. Essentially, we would suggest that this contract is a supply-side Integrated Resource Planning Alternative (IRPA). The part that EGI seems to be missing is that the utility planning should be Integrated. Perhaps, further consideration of this opportunity is needed by EGI which we would welcome in their sharing their perspective in response to these submissions.

This integration of planning can also be used in other areas. While EGI stated that incenting direct purchase of other market participants with a delivery commitment credit at Kirkwall is out of scope for Gas Supply,¹⁸ choosing to deliver Union South needs at Niagara is not. Since Niagara almost inevitably shows up as the lowest cost

¹³ EGI_2024 Annual Update Gas Supply Plan_updated 20240627, pg.33 & 40-41

¹⁴ REVISED 2024-07-02 Transcript EB-2024-0067 Stakeholder Conference, pg.133 line 19 to pg. 137, line 17

¹⁵ EGI_Ltr_GSPlan_Review_Process_20240710, pg. 2

¹⁶ EB-2015-0200 and EB-2019-0159

¹⁷ EB-2022-0157

¹⁸ REVISED 2024-07-02 Transcript EB-2024-0067 Stakeholder Conference, pg.105, line 27 to pg.106, line 15

location to source gas for Union South,¹⁹ FRPO and other parties have asked them why not consider Niagara in almost every review of EGI's Gas Supply Plan. EGI's typical refrain has been, as it was this year, that the path from Niagara is "sold out".²⁰

However, ratepayers expect more from the utility who should have a channel partnership with upstream providers. We asked about this in the Stakeholder meeting:²¹

Now, I touched on Kirkwall before, so I'm not going to go back in terms of the incentive to Kirkwall, but a number of times you have said people are asking, well why not Niagara? And I hear, you know, you continue to say yes, TransCanada is full right now. But, again, this goes back in some history to 2014, 2015, and the Ontario market assessment the board did, TransCanada did a presentation wherein they had demonstrated and provided their presentation to the board that said they could increase the capacity on the Niagara to Kirkwall line to the tune of hundreds of TJs for about \$20 million, and I think it was an Ancaster compressor upgrade that they needed to. Has Enbridge approached TransCanada with the specific question of: Can we increase our deliveries to Kirkwall and through that improve outcomes potentially for ratepayers by one, cheaper supply. And two, potentially avoided facilities?

The EGI response to our inquiry did not give us a sense that the company was going to undertake any real action about this opportunity. As a result, we have exercised our diligence to retrieve the Written Comments of TransCanada in the Board's 2015 Natural Gas Market Review.²² These comments confirm our recollection and to be of assistance, we have attached the two pertinent pages as an attachment to these submissions.

Our respectful request of the Board in its consideration of the Framework is to require an assessment of facilities benefit in the analysis of Gas Supply choices by the utility on behalf of ratepayers. FRPO has some ideas on the opportunity to use the revenue requirement of the avoided cost of facilities to consider the ratepayer benefit. We would look forward to serving the Board with our ideas in this regard.

Procedural Improvements to the Gas Supply Framework

The Gas Supply Framework Process Has Not Generated Quantitative Evidence

In the development of the existing Framework, FRPO was encouraged with the Board's focus on Gas Supply. One of the key outcomes that we believed would be enhanced by the Framework process was:

¹⁹ EGI_2024 Annual Update Gas Supply Plan_updated 20240627, Appendix D shows Niagara as the lowest cost path as it has in every Appendix D analysis provided in GSP.

²⁰ REVISED 2024-07-02 Transcript EB-2024-0067 Stakeholder Conference, pg.113, lines 12-15

²¹ REVISED 2024-07-02 Transcript EB-2024-0067 Stakeholder Conference, pg. 159, line 18 to pg. 160, line 5

²² EB-2015-0237 2015 Natural Gas Market Review

*The OEB requires the distributors to submit a five-year gas supply plan for review every five years. The OEB believes that five years is an appropriate period for a robust review of the gas supply plans because it allows for an efficient use of resources for all stakeholders. This review will provide the main OEB assessment of the **cost consequences** using the criteria set out in the Framework. (emphasis added)²³*

Suffice it to say that on many levels, FRPO's expectations for understanding the cost consequences have not been met. While there has been some evolution of option analysis, the following table provides an example of the evaluation matrix for the Enbridge CDA.²⁴

Table 10
Enbridge CDA Evaluation Matrix

Option	Reliability	Flexibility	Diversity	Costs (\$ million/yr)	Average Cost/Customer Impact	Available Capacity
Long-haul	🟢	🟡	🟢	32.22	<1%	No
Short-haul: D-P	🟢	🟡	🟡	9.35	<1%	No
Short-haul: Dawn	🟢	🟡	🟡	5.38	<1%	No
Short-haul: Niagara	🟡	🟡	🟡	6.59	<1%	No
Third Party	🟡	🔴	🟢	4.44	<1%	Unknown

We have some concern regarding the qualitative components being without substantiation to the point that errors in assessments can even linger going unnoticed.²⁵

More importantly, the customer impact analysis provides very little opportunity for differentiation. As one would note, the customer impact provided for each option is exactly the same even though the annual costs range from \$4M to \$32M. In our view, a more holistic cost impact as a result of the choice, including resulting facilities avoided or additional load balancing required, should be considered in making the choice. This enhancement would raise the bar beyond the simple landed cost impact that does not take into account these important factors. We respectfully submit that including these enhancements would provide the Board with a much better idea of how the options are differentiated from an impact point of view.

It has been EGI's view that the review does not include a provision of cost comparisons.²⁶ As a result, during the last 5 years, FRPO pursued discovery of cost implications and

²³ EB-2017-0129 Report of the Board. Framework for the Assessment of Distributor Gas Supply Plans. Section 4.1

²⁴ EGI_2024 Annual Update Gas Supply Plan_updated 20240627, pg. 50

²⁵ ²⁵ EB-2019-0137 - Stakeholder Conference Presentation - Day One Transcript, pg. 149, lines 5-15

²⁶ EB-2019-0137 - Stakeholder Conference Presentation - Day One Transcript, pg. 22, line 25 to pg. 29, line 9 (included in Tab 5 of our Appendix for the convenience of the reader)

provision of submissions through QRAM initially.²⁷ Our efforts, driven by EGI's direction to seek costs in QRAM, created confusion with the Board.²⁸ In an attempt to get better insight and quantifiable cost information, we worked with other ratepayers in the Deferrals proceeding²⁹ to seek a commitment from EGI to provide this data in the 2023 Gas Supply Update.³⁰ In our view, if EGI were required to provide specific quantifiable evidence as part of the consultation or in an initial hearing for the initial five-year plan, the company could provide evidence in support of its choices. Moreover, the inefficiency of ratepayer representatives being bounced from one proceeding to another for discovery could be eliminated. This change would improve regulatory efficiency contrary to EGI's assertions regarding regulatory efficiency.³¹

Given that the next major update of the Gas Supply Plan has been deferred to accommodate the insight to be garnered from decisions in the rebasing proceeding, we believe this period would be an excellent opportunity for the Board to use a formal hearing adjudicated by a panel of commissioners. In this more effective process, changes as a result of rebasing and enhancements to the Framework can be evidenced and tested in a manner that would serve the public interest for a Plan with annual ratepayer cost in the billions of dollars.

Conclusion

FRPO is appreciative of the opportunity to assist the Board with its perspectives drawn from over a decade and a half serving the Board and, from its consultant almost 30 years of experience in developing Gas Supply plans. We trust that the Board will consider our recommendations for the inclusion of more insightful cost information in the Plan and for the opportunity for commissioners to be involved in assessing the implications of EGI's rebasing and directed updates.

ALL OF WHICH IS RESPECTFULLY SUBMITTED ON BEHALF OF FRPO,



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Principal

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²⁷ FRPO_QUEST_EGI_QRAM_2022Q3_20220606, EGI_Reply_20220610_eSigned, FRPO_SUB_EGI_QRAM_2022Q3_20220613

²⁸ dec_order_EGI_July_2022_QRAM_20220616, pg. 10-11

²⁹ EB-2022-0110

³⁰ EB-2022-0110 Exhibit I.FRPO.9 & FRPO.14, FRPO_REQ_EGI_COMP_RESP_20220906 and resulting Settlement Proposal EGI_SettlementP_20221011

³¹ EGI_Ltr_GSPlan_Review_Process_20240710

Adjustment Mechanism (QRAM) application to the OEB in 2015 when they estimated that they saved \$97.4 million in gas supply acquisition costs by fully utilizing their long-haul contracted capacity during the polar vortex in January and February of 2014.⁷

c. Niagara/Chippawa

TransCanada has transported Marcellus/Utica supply into Ontario via the Niagara point since 2012, and more recently via Chippawa since November 2015. Both points were previously export points for deliveries into the US Northeast, but due to the growth in Marcellus/Utica supply, they have now reversed to become import points.

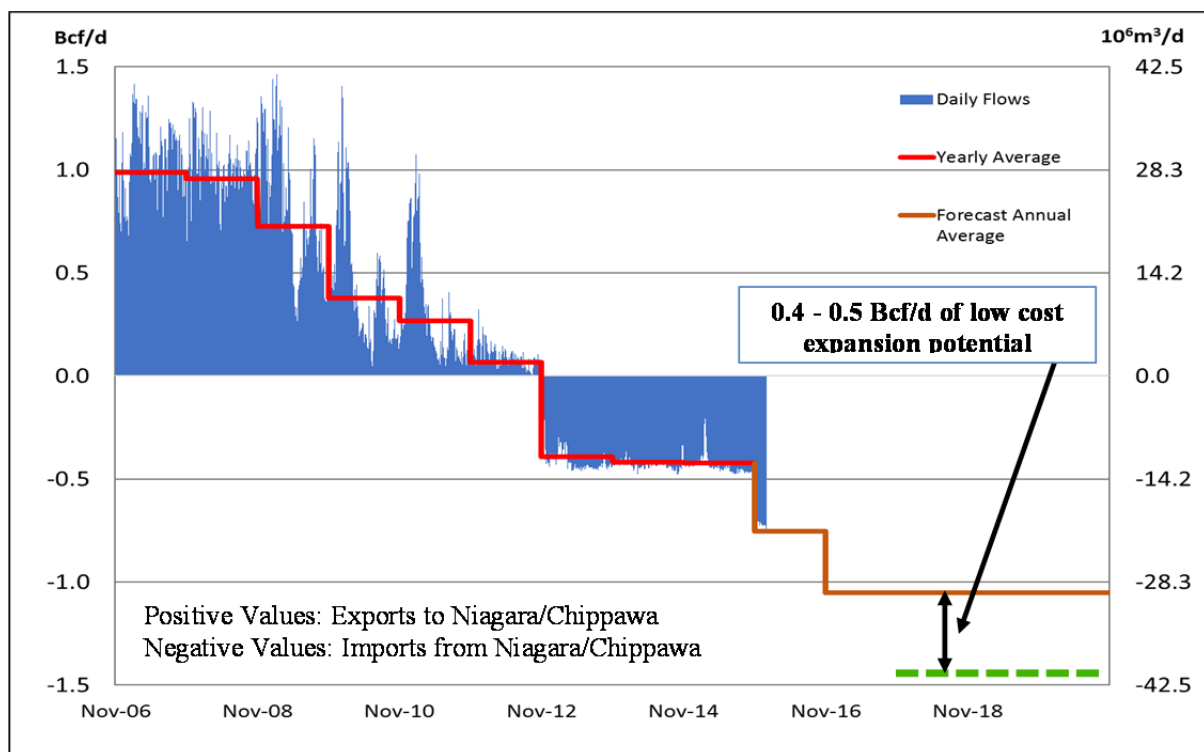


Figure 6: Niagara/Chippawa Flows, Historical and Forecast

Figure 6 illustrates the importance of the Niagara/Chippawa import points to Ontario. Firm contracts for supply through these points will rise to nearly 1.1 Bcf/d in the winter of 2016/17.

TransCanada expects to be able to service this reversal of flow service at relatively low cost. To accommodate the 1.1 Bcf/d of firm receipt service, TransCanada will have spent less than a total of \$30 million.

⁷ EB-2014-0039 Enbridge Application, Exhibit Q2-2, Tab 1, Schedule 1, Page 6 of 10.

Further opportunity for low cost expansions at the Niagara/Chippawa points exists. Approximately 400 - 500 MMcf/d of incremental import capacity can be made available at the relatively low cost of approximately \$20 million. This incremental capacity is a cost effective option to service future growth in Ontario.

d. Waddington

As the Niagara/Chippawa points have already done, Waddington is expected to reverse flow in the near term. TransCanada has signed firm contracts to receive gas at this location, effective November 2017. This reversal will be further facilitated by the completion of pipeline projects in the US Northeast such as Constitution and the supply segment of Northeast Energy Direct, further discussed in subsection 'e'.

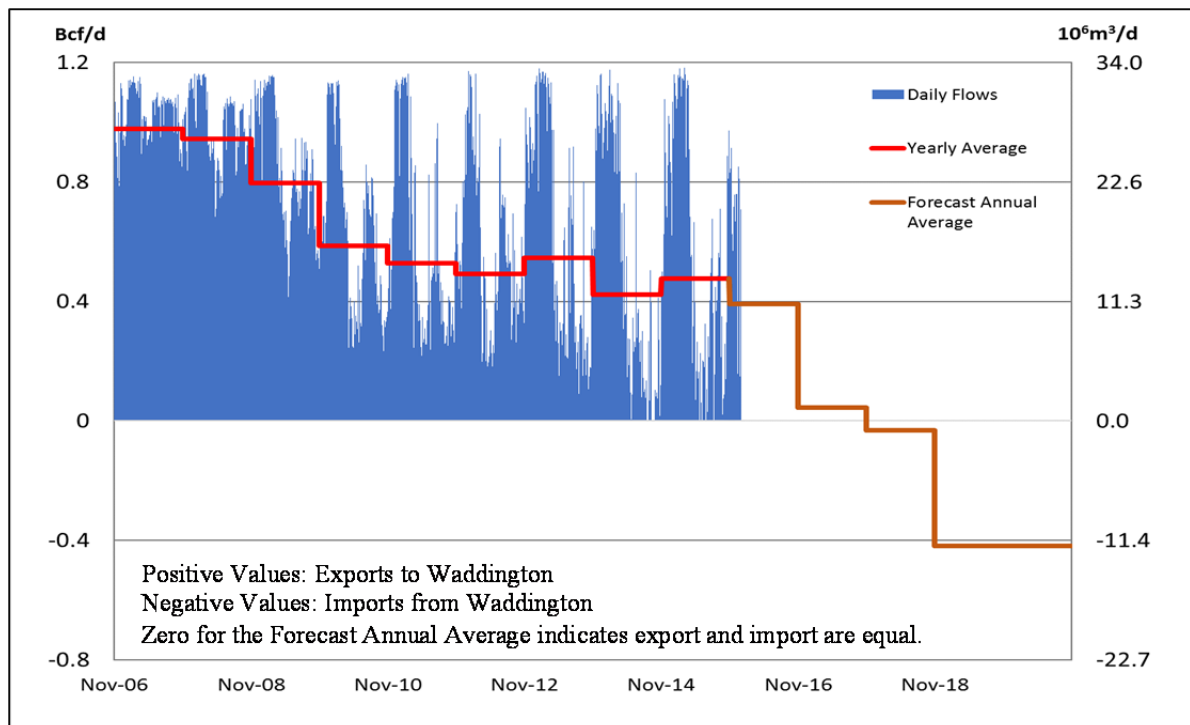


Figure 7: Waddington Flows, Historical and Forecast

Waddington offers a number of benefits as an option to facilitate the transportation of Marcellus/Utica supply into Ontario.

First, it is low cost. Pipeline infrastructure is already in place and the modifications to accommodate imports primarily consist of simply reversing the direction of flow. TransCanada has already announced plans to reverse the meter at Waddington so that flow can be measured in both directions.