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November 2, 2010

VIA MAIL and E-MAIL

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge St.
Toronto, ON
M4P 1E4

Dear Ms. Walli:

Re: 2010 Natural Gas Market Review, EB-2010-0199
Comments of the Vulnerable Energy Consumers Coalition (VECC)

Pursuant to the Ontario Energy Board's letter of August 20, 2010, please find enclosed the comments of VECC in the above-noted proceeding.[1]

The ICF Report

This report was filed with the Board on August 20, 2010.

The ICF Report advised that (i) production from the Western Canadian Sedimentary Basin would continue to decline and, along with it, TCPL throughput volumes would decline, (ii) Marcellus Shale gas production would increase, (iii) Canadian gas exports to the US would decrease while imports from Michigan to Ontario would increase, and (iv) natural gas prices in Ontario will increase in both absolute terms and in relative terms as compared to the Henry Hub benchmark price.

[1] VECC, along with six other intervenors – CCC, CME, Kitchener, FRPO, LPMA, and SEC – sponsored a report prepared by John A. Rosenkranz which was filed with the Board on September 21, 2010.

Comments on the ICF Report

As Mr. Rosenkranz noted in his September 21, 2010 Report, *inter alia,* the ICF Report considers only a single scenario and the modelling reflects average throughputs not peak requirements which drive the need for increased capacity. In VECC's view, these shortcomings should be fully addressed prior to any major regulatory regime changes.

VECC's view is that there is great uncertainty with respect to alternative gas supplies – and hence in the need for increased infrastructure capacity – in the future, given potential environmental concerns regarding shale gas[2] and the narrowing of natural gas price bases.[3] It is unclear to VECC at this time the extent and significance of shale gas and LNG supplies for Ontario gas customers. While it is possible that there may be significant future changes in gas flows in the province, VECC submits that there is no good reason, at this time, to embark on major infrastructure expansions based mainly on speculation.

VECC's Concerns and Recommendations

With the probable continued decline in TCPL throughputs there will be probable continued increases in TCPL tolls that will increase costs to gas users in the North especially.

In this respect, VECC suggests that the Board consider whether Ontario consumers are currently adequately represented in TCPL tolls proceedings, noting that in the US, state PUCs often intervene in FERC facilities and rates proceedings to represent the interests of their consumers.

In addition, if there are projects that could mitigate the impact of the TCPL toll increases on those customers who are presently dependent on TCPL long haul supplies, VECC submits that such projects should be pursued if rigorous analysis indicates that they are economic and environmentally acceptable.

VECC is also concerned with the possibility of uneconomic expansions and stranded costs, especially as such expansions are undertaken for non-utility or ex-franchise customers while the stranded costs are allocated to the detriment of in-franchise customers.[4]

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[2] From Marcellus or Utica or elsewhere given the potential environmental impacts of hydraulic fracturing on air quality, water quality, and water supply.
[3] The narrowing Michigan-Dawn price basis has delayed indefinitely the Dawn Gateway Pipeline Project.
[4] Long-lived assets may be constructed on the basis of what turns out to be short-term price advantages, leaving in-franchise customers with the costs but not the benefits.

VECC also submits that, depending on the tolling approach adopted by the Board, in-franchise customers may actually end up subsidizing projects undertaken for the benefit of ex-franchise customers. In this respect, VECC advocates that the minimal economic test for a subsidy be employed: the tolls associated with assets constructed for any such project should recover an amount strictly between incremental cost and stand-alone cost, i.e., existing ratepayers should be no worse off and the new ex-franchise customers should make a contribution to the system costs.

Given that Ontario will become more dependent on deliveries from the US (in all likelihood), VECC urges the Board to work closely and coordinate activities with other regulators to reduce artificial barriers and so that a seamless path is created between suppliers and Ontario customers.

Finally, VECC urges the Board to seriously consider implementing a long-term resource planning process for Ontario gas utilities for the reasons given by Mr. Rosenkranz in his September 21, 2010 Report.[5]

DATED AT TORONTO, THIS 2nd DAY OF NOVEMBER, 2010

Michael Buonaguro
Counsel for VECC
c/o Public Interest Advocacy Centre

cc: Lisa Brickenden, Ontario Energy Board

Chris Ripley, Union Gas Limited
Norm Ryckman, Enbridge Gas Distribution Inc.
Bob Cowan, Natural Resource Gas Limited

[5] See pages 11-12 of the Rosenkranz Report.