

# Ontario Energy Board Natural Gas Market Review

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# Industrial Gas Users Association

- Members from mining, metals, petrochemicals, pulp & paper and manufacturing sectors
  - Over 24,000 jobs in Canada, 750,000 jobs worldwide
  - Members are in cyclic commodity business
  - Energy costs factor in international competitiveness
- Consumption exceeds 100 PJ per year
- Varied use of gas, varied load profile
  - feedstock, process heat, power generation, space and water heating
  - Main fuel, auxiliary fuel, back-up fuel
- Different gas service combinations
  - From system gas to own transportation and storage
- Heavy reliance on the secondary market
  - Simple, flexible

# Our Gas Market Reality

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Last winter, this winter

# Going Into Last Winter

- New NEB Tolls for the Mainline  
(source: NEB RH-003-2011 Decision March 2013, Adobe pp20,33-34)
  - \$1.42/GJ from Empress to Dawn for firm service (FT)  
firm: annual contract & annual tolls, guaranteed capacity
  - TCPL had asked for \$2.52/GJ
  - TCPL full control over the cost of discretionary services  
discretionary: no obligation, pay to use only if excess capacity available
- TCPL priced discretionary services 300% - 500% of firm tolls  
(source: TransCanada Quarterly Surveillance Report for Q4 of 2013)
- Secondary market responded
  - Industrials faced a premium for (secondary market) services
  - Dawn storage did not fill-up

# The Cold Winter of 2013-14

- Polar Vortex, prolonged frigid conditions (warmer than design day)
- By February TCPL discretionary services were priced at 1200% of firm  
(source: TCPL Quarterly Surveillance Report for Q1 2014, Adobe p 15)

## Gas Prices at Dawn

(source: Union Gas Website, Presentation by Chris Shorts, Natural Gas Market Update and Evolving Supply Dynamics, p 12)

- Winter Strip (Buying in Oct for delivery Nov – Mar) \$4
- Month Ahead (Buying monthly for delivery the next month) \$4 - \$14
- Daily Spot (Buying daily)
  - Nov 2013 range \$3 - \$4
  - Dec 2013 range \$3 - \$5
  - Jan 2014 range \$4 - \$47
  - Feb 2014 range \$8 - \$79

# Detrimental Impact on Industrials

(IGUA survey)

- Billion dollar order of magnitude hit on markets  
(source: compilation of figures from utility QRAM applications and closing of the books)
- Major energy budget overrun for IGUA members (source: IGUA survey)
  - Gas budget overruns up to 300%, typically in the range 5%-15%
  - Electricity budget impact up to 480%, typically in the range 15%-30%
- High curtailments
  - 20+ days in Ontario (50+ days in Québec)
- Impact severity varied with location, load profile & service type
  - Secondary market, direct contracted capacity, through the LDC
- Polar Vortex can not be blamed for everything
  - New toll regime, low storage, competition from US power market

# Outlook for the 2014-2015 Winter

- Normal BAU projections for demand, infrastructure and supply
- Dawn storage is full
- Discretionary services priced lower than last year (95%-300% of FT)

However

- Higher cost & fewer services offered in the secondary market
  - Member could not secure winter supply for Enbridge EDA from the secondary market and was asked to buy daily
  - Member in Union SWDA (almost on top of Dawn) paid a 20% premium
- The forward price of winter supply at Iroquois is twice the forward price of supply at Dawn
  - Basis differential is nine times the transportation cost, suggesting constraint
- Buffalo got 5 ft of snow in November...

# Evolution of Natural Gas Markets

Supply, Infrastructure, Demand





# Supply – Dramatic Change

- Within 5 years North America has gone from ‘short’ to ‘surplus’
- ON is close to Marcellus and Utica (larger than WCSB)
- Dawn storage is a major asset for Ontario

## **Opportunity for ON ... investment, jobs, quality of life**

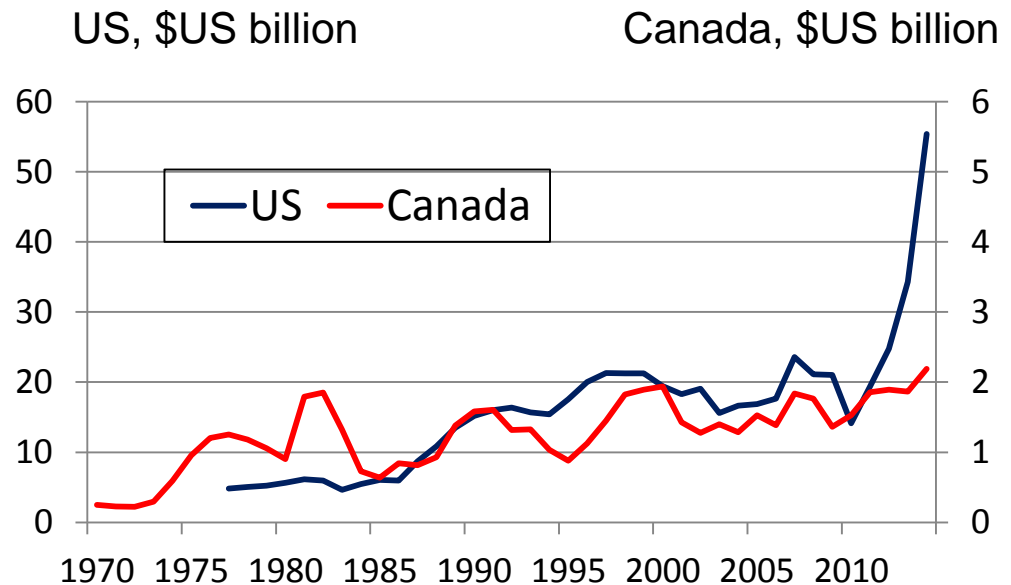
- Reduce the landed cost of gas & electricity
- Enhance competitiveness of ON industry
- Attract new investment and grow the economy
- Develop the ring of fire

# Demand

- Stagnant res/com
- Steady growth in power generation
- Emerging transportation
- Industrial
  - Stagnant in ON
  - Manufacturing revival in the US

## Chemistry Industry Investment

Source: Chemistry Industry Association of Canada



Data estimated for 2013, projected for 2014

# Infrastructure must Adjust

- We recognize that changing the architecture of the gas infrastructure is non-trivial & entails cost
- Emerging flow configurations will shape trade & investment patterns for several decades
  - Energy enables economic development
  - Industrials need access to reliable and competitively priced energy to survive, compete & grow
  - Timing is important
  - Market redesign should reflect the price sensitivity of market demand
- Managing the transition is important
  - Properly considered but...reasonably expeditious
  - Coordinated (bigger picture) view
  - Costly lost opportunity otherwise

# ON Infrastructure Needs

- US pipeline construction to connect new supply **to** Dawn
- Enhanced physical and financial liquidity at Dawn
- Removal of pipeline bottlenecks **from** Dawn to markets
- Redefined role and tolls for the Mainline
  - Continues to be very important for security & diversity of supply
- Manage the cost of stranded Mainline assets
- Efficient and smooth transition process

# Infrastructure Adjustment

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Piecemeal, Inefficient and Expensive

# Industrial Market Expectations

- Turn proximity to Marcellus into competitive advantage
- Long term
  - Reduced landed cost of gas in Ontario
  - Expanded physical and financial liquidity at Dawn
  - Right-sized pipeline system
- Short term
  - Avoid price shock and service deterioration
  - Road map for infrastructure transition
  - Smooth transition process

**Transitioning the markets should not be detrimental to markets**

# Transition Update

- Bottlenecks – NEB decision?
- Stranded Asset Issue – Energy East application was filed late October
  - Will go to hearing in late 2015... currently fiercely opposed
  - NEB process limits broad public engagement
  - ON and QC governments have stepped in to engage & represent the public
- Domestic gas market interests are pitted against oil export interests unnecessarily
- Insufficient attention to:
  - The status of pipelines connecting new supply to Dawn
  - The need for enhanced financial liquidity at Dawn
- The economic revival witnessed in Michigan, Ohio and Pennsylvania is sadly lacking in QC and ON

# Costly & Painful Process

- Fierce fighting among the pipeline majors
- Many different hearings in multiple jurisdictions deal with aspects of the transition (NEB, OEB & the Régie)
- Regulatory system is strained under the magnitude, scope and pace of change
- Media tug-of-war, stepped up lobbying
- Secondary markets offer less service at higher cost
- Lumpy industrial investment is going to the US

Harmful to competitiveness ... Missed economic opportunity



# Timely Gas Market Review

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Last winter, long term, Information gap

# Recovering from Last Winter

- Restore confidence in the market
  - Investigate the events and ensure all parties followed the 'rules'
  - Examine the adequacy of the 'rules'
- Safeguard against last winter becoming the new norm; **Identify** and **monitor** key influencers
  - Gas storage and pipeline capacity
  - The interdependence between gas and electricity markets
  - Interplay between domestic and export markets
  - Secondary market dynamics
  - More volatile weather patterns
- Facilitate better information in the market place
  - Annual natural gas deliverability report, periodic updates
- Replicate FERC's gas market monitoring role in Canada (NEB?)

# Mid to Long-Term Objectives

**Consider both extra-jurisdictional developments and broader/longer term transition to new market configuration**

- Streamline the infrastructure transition process
  - Consideration for how any specific application fits in the global transition process
- Facilitate supply diversity
  - Ensure timely removal of pipeline bottlenecks **from** Dawn to markets
  - Ensure that ON gas markets are served after repurposing of stranded Mainline assets
  - Develop a perspective of the evolving role of the Mainline and a suitable toll regime
- Ensure the transition is not detrimental to markets
  - Avoids price shocks
  - Foster a vibrant secondary market

**Regulators, applicants and intervenors share responsibility for facilitating consideration of the bigger picture**

# IGUA and Energy East

- Enthusiastic about the concept of the project
  - Leverages Canadian energy resources to strengthen the industrial base in Canada
  - Brings new life to the petrochemical industry
  - Repurposes underutilized gas assets
- Support the transfer of underutilized assets from Empress to North Bay
- Issues with the transfer of the utilized North Bay Short cut
- We should find a way to build the Energy East pipeline without harming gas markets

Thank You