

**ONTARIO ENERGY BOARD  
2014 NATURAL GAS MARKET REVIEW**

**EB-2014-0289**

**SUBMISSIONS OF THE CONSUMERS COUNCIL OF CANADA**

**INTRODUCTION:**

On September 19, 2014, the Ontario Energy Board (“Board” or “OEB”) initiated the 2014 Natural Gas Market Review (“NGMR”). The stated purpose of the review is to examine recent developments in the North American natural gas market to better understand any potential implications for Ontario’s natural gas sector.

In initiating the NGMR the Board indicated that it would include a consideration of the following matters:

- a review of Winter 2013/2014 natural gas market conditions and prices in Ontario in order to explain what happened and why;
- an examination of the underlying drivers of the Quarterly Rate Adjustment Mechanism (“QRAM”), highlighting the cost and risk trade-offs of difference gas supply planning parameters;
- the key factors affecting North American and Ontario natural gas markets, changes in these since the 2010 Market Review, and forecast natural gas demand, supply, and prices to 2020; and
- any regulatory implications arising from NGMR and any other key issues that should be considered by the Board.

In addition, the Board invited stakeholders to propose any additional issues that should be considered in the context of the review. On December 1, 2014, the Board set out an agenda for the proposed Stakeholder Conference to be held on December 3 and 4, 2014. Presentations and discussion at the Stakeholder Conference were focused on the following areas:

1. Overview of Recent North American Natural Gas Market Developments
2. Winter 2013/2014 Natural Gas Prices
3. Natural Gas/Electricity Market Interface
4. North American and Ontario Natural Gas Markets to 2020
5. Market and Regulatory Implications

Board Staff engaged Navigant Consulting Inc. (“Navigant”) to prepare two reports:

1. Winter 2013/2014 Natural Gas Price Review
2. 2014 Natural Gas Market Review (Preliminary Report)

Navigant made several presentations at the Stakeholder Conference, as did the following parties:

- Enbridge Gas Distribution (EGD)
- Union Gas Limited (Union)
- Federation Of rental Providers of Ontario (FRPO)
- Ontario Energy Board – Market Surveillance Panel
- Independent Electricity System Operator (IESO)
- Association of Power Producers of Ontario (APPrO)
- TransCanada PipeLines Ltd. (TCPL)
- Industrial Gas Users’ Association (IGUA)
- Ontario Power Authority (OPA)
- John Rosenkrantz

On December 23, 2014, Board Staff circulated Navigant’s Final 2014 Natural Gas Market Review (including two new pricing scenarios) in addition to a set of issues developed in light of the discussions at the Stakeholder Conference.

These are the submissions of the Consumers Council of Canada. It remains unclear what the outcome of this review is expected to be. To the extent the Board intends to undertake modifications to the Board’s natural gas framework or regulatory policies arising out of this review, parties should be given a further opportunity to comment. This will be important given many of the potential proposals being advanced by parties may be put forward for the first time through their final submissions. This is also important given the consultation process did not involve “evidence”, but consisted of untested reports, submissions, presentations and discussion. There was a diverse group of stakeholders participating and not all parties agree on where the natural gas markets are headed, or what, if anything, this Board should be doing differently. Any major changes with respect to the Board’s oversight of the Ontario natural gas market should be subject to a more rigorous review.

The Council is of the view that this process was extremely useful in terms of facilitating discussion amongst the stakeholders regarding many elements of the Ontario natural gas sector. Important issues were raised and identified. The Board intends to undertake such a review annually. Given the fact that the natural gas sector has become increasingly more complex over the last several years the Council is of the view that an annual review will be in the best interests of Ontario natural gas consumers.

The Council will set out, below, its comments relevant to the broad topic areas. In the context of those submissions we will address some of the issues set out by the Board on December 23.

## **1. Overview of Recent North American Natural Gas Market Developments**

There was general agreement at the Stakeholder Conference that the North American natural gas market has dramatically changed over the past several years. As noted by Navigant and others, the growth in natural gas production since 2008 has been driven in large measure by the emergence of shale production and has resulted in an abundance of reasonably priced gas becoming available.

At the same time, production in the Western Canada Sedimentary Basin (“WCSB”) has declined and will continue to decline. Although natural gas supply is coming to Ontario through more diverse supply sources, facilitating transportation, storage and distribution for customers is becoming more complex relative to prior periods when WCSB was the primary supply source. Gas supply planning for Ontario LDCs is changing significantly.

Changing gas flows and new supply sources have initiated proposals by Union, EGD and TCPL, for new transportation capacity. Several of these projects were before the Board for approvals last year. Union is currently bringing forward applications for additional projects. TCPL is also applying to the National Energy Board (“NEB”) for approvals to change its transportation network with the Energy East Project and the Eastern Mainline Project. There is not agreement amongst the Ontario LDCs and TCPL or other stakeholders as to what configuration of new assets is the most economic for Ontario consumers. There is also no agreement as to the future of Ontario gas demand.

All of this raises a number of issues that must be considered by this Board. It is no longer enough to consider the merits of a particular pipeline in an individual application. How can the Board ensure that Ontario LDCs will put in place the optimum assets required to adequately serve Ontario gas consumers? How can the Board ensure that the LDCs will not overbuild or under build? What mitigation measures might be required to protect the interests of Ontario ratepayers?

The fact that the NEB is the regulator that will oversee the proposals by TCPL makes it even more difficult for this Board to decide what mix of assets is optimum. How can the applications before the NEB and the OEB be coordinated to ensure that the interests of Ontario consumers are adequately considered? These are all very important considerations for the Board, and need to be addressed as soon as possible.

Given the fact that the market has changed significantly since 2010 the Council supports a move to a more integrated resource planning process for Ontario LDCs.

Looking at stand-alone facility applications is no longer appropriate given the increased interdependency of these assets. The Board expressed its support of integrated resource planning when it considered the Parkway and GTA facility applications of Union and EGD. This will allow for a better assessment of the optimum asset mix for Ontario. The Board should look to initiating such a process as soon as possible.

In addition, the Board should work with the NEB to ensure, at a minimum, they are working together, to the extent possible, in terms of deciding the most economic and efficient ways to serve the needs of Ontario gas consumers. This could involve a joint review undertaken by both regulators. In the absence of such a review the OEB and the NEB could be making decisions that work against each other and negatively impact natural gas consumers.

## **2. Winter 2013/2014 Natural Gas Prices**

There was general agreement during the Stakeholder Conference about what occurred last winter with respect to natural gas pricing. Extreme weather conditions elevated demand through the U.S and Ontario, strong Midwest demand impacted pricing at Dawn, large storage withdrawals necessitated spot purchasing and increased interruptible tolls impacted the competitiveness of Alberta gas. The Ontario LDCs essentially followed their approved gas supply planning protocols, but the pricing impacts on consumers were nevertheless significant. It is anticipated that as greater access to more diverse supplies becomes available, the LDCs will be better equipped to manage supply even in extreme conditions.

In response to last winter's pricing increases, the Board made some changes to its Quarterly Rate Adjustment Mechanism ("QRAM") process to ensure that in the case of significant changes in gas costs the impacts on consumers could be mitigated. The Board amended the QRAM process to allow it to review in greater detail the reasons for the changes. The Board also adopted some changes to enhance customer information and education around gas cost changes.

The Council continues to support the QRAM process, as currently designed as a way of passing gas cost changes to customers. With the exception of last winter where extreme market conditions occurred, the QRAM process has relatively worked well. The Council believes it will continue to work well with the recent changes mandated by the Board. The Board has mandated that customer education be enhanced and the Council continues to support such an initiative. The LDCs should be looking at ways to ensure that customers are given sufficient notice of bill changes and where required, provided with ways to minimize significant bill impacts.

In light of the issues that arose last winter, the Council is of the view that the Board should clearly articulate what it perceives to be its role, going forward, with respect to the LDC gas supply plans. Currently gas supply plans are "approved" in the

context of rate proceedings. However, given the LDCs are operating under five-year incentive rate-making plans, Board oversight on an ongoing basis is limited. This may have to change given the expectation that gas supply planning and execution is becoming more complex.

Going forward the Council sees merit in an approach that requires the LDCs gas supply plans to be filed in the annual deferral and variance account proceedings. This will give intervenors and the Board the opportunity to assess what has actually occurred over the last winter relative to the plans. In addition, it will allow parties to consider what might need to change. Annual gas supply planning reviews will enhance the ability of the Board to understand and oversee these plans and test the extent to which they are in the best interests of the LDC ratepayers.

### **3. Natural Gas/Electricity Market Interface**

The Council has no specific recommendations regarding issues around the natural gas and electricity market interface. It is obviously important that communication between the sectors be facilitated, and in particular the OEB and the IESO keep abreast of what the other is doing. It is our expectation that a great deal of communication does take place and should continue.

APPrO is regularly involved in OEB natural gas proceedings which allows for an important power perspective to be heard. This is also true of the IESO. Furthermore, an annual NGMR process will also allow for issues relevant to both sectors to be addressed by the Board. To the extent significant interface issues arise, the Board can initiate a more extensive review of those issues.

### **4. North American and Ontario Natural Gas Markets to 2020**

This review highlighted the fact that the Ontario natural gas market has changed dramatically since 2010 and will continue to change. There are many “moving parts” which makes demand and supply projections difficult. Given the fact Ontario is essentially operating in a North American market there are many things that can happen outside the jurisdiction of the OEB, that can significantly impact Ontario.

In light of this, the Board should begin to enhance the way in which it monitors the North American Market. Staff resources should be focused on a more comprehensive approach to market monitoring. In addition, as a part of the annual NGMR, a consultant’s report similar to the one provided by Navigant should be undertaken. The Navigant report provided detailed information on recent influences on the North American and Ontario natural gas markets (e.g. less reliance on WCSB supply, increased shale production, changes in transportation flows rate restructuring) and provided an assessment of emerging trends. This could be updated each year in a consistent format. A thorough market assessment will also provide the Board with information that will help it evaluate the gas supply planning approaches of each of the LDCs.

## **5. Market and Regulatory Implications**

Given what we have learned to date regarding recent developments in the natural gas market and emerging trends what changes could or should be made to the current regulatory structure? In addition, what else should change in terms of the Board's role with respect to its oversight of the natural gas sector?

The Council has made some recommendations above for the Board's consideration:

1. If the Board intends to make changes arising out of this review any major changes should be the subject of a process that allows evidence to be presented and tested. At a minimum stakeholders should be given an opportunity to provide comment on any significant changes prior to their implementation;
2. The Board should, move forward with its proposal of an annual NGMR;
3. The Board should initiate an integrated resource planning process for Ontario LDCs in order to assess the most economic and efficient way to serve Ontario gas consumers;
4. The OEB and the NEB should undertake a joint review to consider how best to serve the needs of Ontario gas consumers;
5. The QRAM process should continue to be the basis on which to charge ratepayers for gas costs. The changes made by the Board in its Decision dated August 14, 2014 (EB-2014-0199), to enhance consumer information and education regarding gas cost changes, and to allow for a more detailed review in the case of significant bill impacts have improved the QRAM process;
6. Gas supply plans should be filed with LDCs' annual applications for approval of deferral and variance account balances. This will allow for an annual gas supply planning review for each LDC;
7. In light of the fact that the North American and Ontario natural gas markets have changed dramatically over the last several years the Board should undertake a more comprehensive approach to market monitoring. In addition, an expert assessment (like that provided by Navigant) should be undertaken as part of the annual NGMR;

In addition, with respect to some of the other issues identified by the Board on December 23, 2014, the Council makes the following comments:

1. There was no discussion during the NGMR Stakeholder Conference regarding the proposal to replace the Empress reference price with a Dawn reference price for regulatory purposes. Although intuitively this is a proposal that likely makes sense (given more supplies are now sourced at Dawn), a decision to move to a Dawn reference price should be considered within the context of a utility rate application or in the context of a QRAM review where evidence regarding the implications could be tested by all parties.
2. The Council supports facilitating greater transparency and access to information with respect to both the primary and secondary natural gas markets.

All of which is respectfully submitted,

Julie Girvan  
Consultant to the Consumers Council of Canada