What Large Volume Gas Customers said about Energy East Project

Energy East Consultations

Part Two

January 2015

Overview

- Elenchus retained to consult with **natural gas** customers to better understand their views on Energy East and Eastern Mainline Pipeline Project

- This is a summary of their key messages

Approach

- Elenchus met with a variety of individual large customers, customer associations and LDCs to better understand their views, including:
  - Industrial Gas Users Association (IGUA)
  - Association of Power Producers of Ontario (APPrO)
  - Canadian Manufacturers and Exporters (CME)
  - Schools Energy Coalition
  - Energy Retailers
  - LDCs (Union, Enbridge, Utilities Kingston, Kitchener Utilities)
  - Association of Major Power Consumers of Ontario (AMPCO)

Project Details

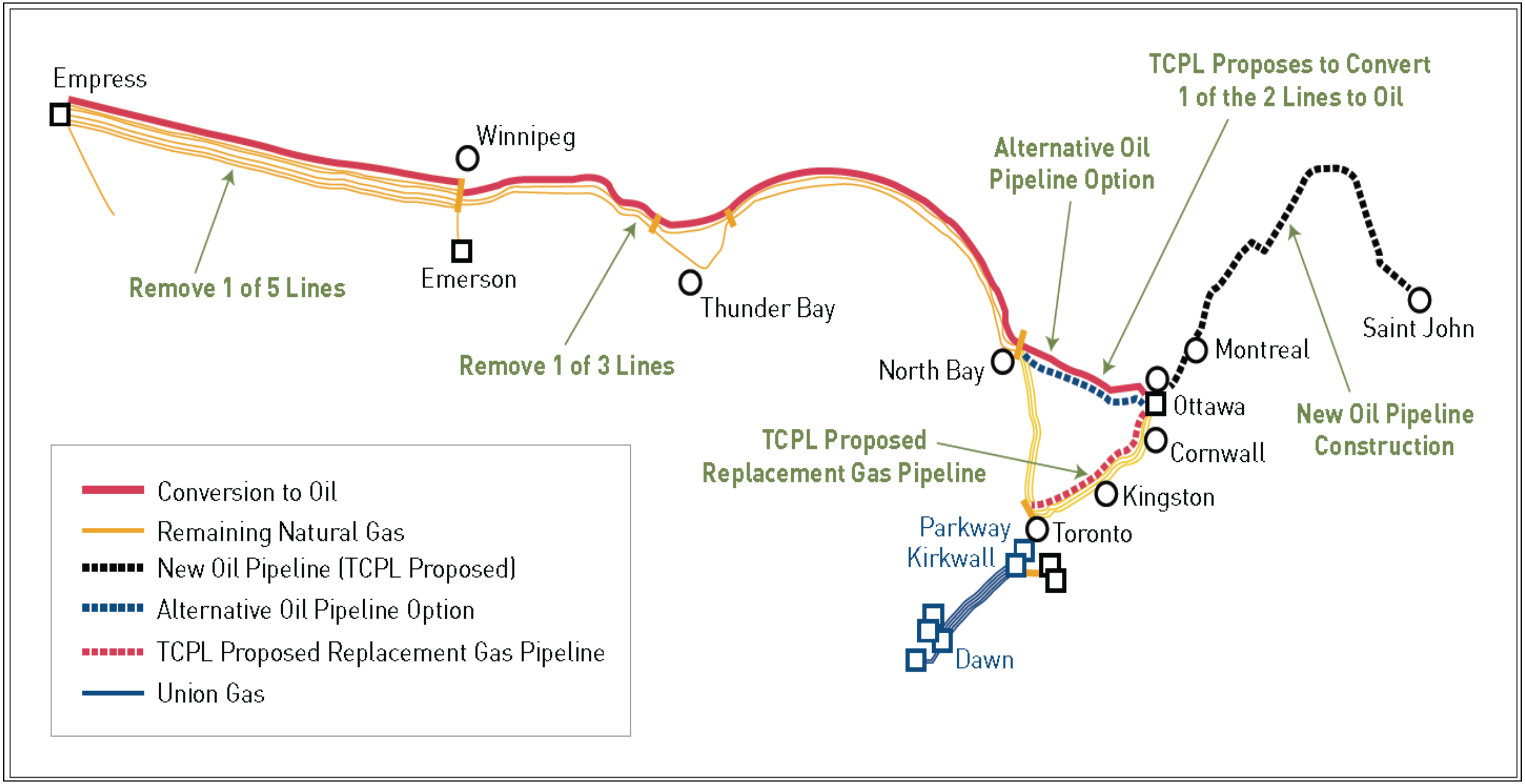
Energy East Project

- Transfer of 3,000 km of 42”
- Net book value $ 1 B
- 1,500 km of new oil pipeline
- In-service Q4 2018

Eastern Mainline Project

- Markham to Cornwall
- 575 TJ/d vs 1,200 TJ/d of NBS capacity removed
- Capital Cost $1.5 B
- In-service 2017

Energy East & Eastern Mainline Projects



Support Pipeline Transfer West of North Bay

- No capacity concerns west of North Bay
- Assets should be transferred at fair price

Concerns for Transferring North Bay Shortcut (NBS)

- Capacity has been fully utilized in recent past
- Solution: Start new oil line in North Bay
- Alternatively ensure sufficient capacity constructed to meet current and reasonable net growth
- LDCs submitting requests for additional capacity

Asset Transfer Price Should be Fair

- No single view on what is “fair”
- Solution: cost neutrality in Eastern Triangle to 2040
- TransCanada proposed $500 M contribution

Risk Higher Tolls

- Due to
  - Future growth (up to 1,200 TJ/d)
  - Cost overruns in EMP
  - Use of a 36” vs a 42” for EMP
  - Costs to refurbish idled NOL capacity
- Increased fuel

Commodity Price Risk

- Loss of capacity will impact secondary markets
  - Higher gas prices in ET
  - Higher prices could also increase price of electricity when gas-fired generation in ET is on margin
  - May also increase price volatility

More Onerous Commercial Terms

- New capacity – 15 year term
- Some customers are unable to contract long term
  - Barrier for new investment and maintaining existing investment in Ontario
  - May undermine natural gas generation competition and operation
- Long lead time for new capacity

Potentially Higher O&M Costs and Reduced Reliability

- Newest NOL line transferred to Energy East
- Existing older gas pipelines may be more susceptible to:
  - Risks of higher O&M
  - Reliability concerns

Customers Need Additional Information

- Long term tolls
- Future facility costs and toll impacts
- Cost benefit of 42” vs 36” in EMP
- Long term tolling impact of $500 M contribution

Some Customers Want New Services

- New Services to recognize the new environment
  - Risk transfer of economic activity out of Ontario
  - Generators may need new services to reflect system changes and changes to Ontario power market
- LDCs investigating alternative distribution services

Implications of LDC Contracting for FT

- LDCs would like clarity on policy implications of :
  - Contracting for direct purchase customers
  - Advance capacity to meet growth requirements