

Ontario Energy Board Energy East Consultation

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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, & access to capital
- 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

IGUA's Preoccupation

- Ensure reliable access to natural gas at competitive price
- Reduce the landed price of gas for industrials in ON & QC
- Historical focus: Infrastructure (transmission & distribution)
 - Efficient operation, fair and equitable cost allocation, unbundled services
- Current focus: supply, infrastructure & markets
 - Benefit from supply diversity and large supply basins in proximity
 - Manage the threats from pipeline restructuring
 - Ensure efficient gas market function

IGUA Expectations

- Supply- Turn proximity to Marcellus into competitive advantage
 - Reduce the landed cost of gas in Ontario
 - Enhance physical and financial liquidity at Dawn
- Infrastructure- Transition to the new supply reality
 - New production basins are not in the same place as conventional basins
 - Pipeline infrastructure needs to adjust
 - Transportation **bottlenecks** in the EOT
 - Mainline **underutilized assets** in the Prairies and NOL
 - Manage the transition process to prevent market shock
- Markets- Preserve a healthy secondary market
 - Optimizes use of pipeline capacity
 - Check on monopoly pricing by pipelines

Changing Pipeline Architecture

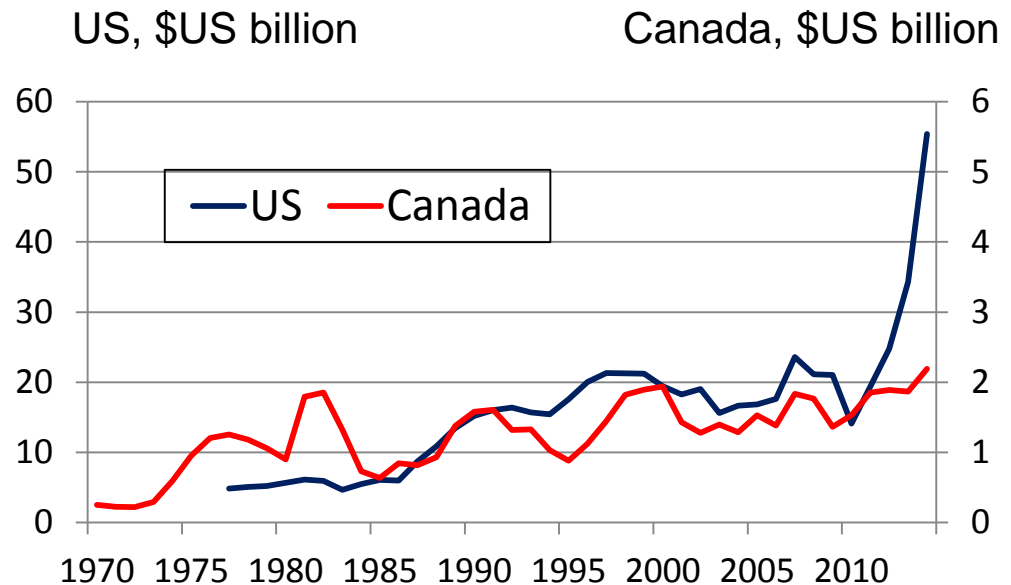
- We recognize that changing the architecture of the gas infrastructure is non-trivial & entails cost
- Emerging flow configurations will shape trade & investment patterns for several decades
- Settlement Agreement addresses the problem of bottlenecks in the EOT
- Energy East and Eastern Mainline aim to address the problem of underutilized Mainline assets
- Managing the transition is important

Costly and Painful Process

- Fierce fighting among the pipeline majors
- Regulatory system is strained under the magnitude, scope and pace of change
- Secondary markets constraints
- Lumpy industrial investment is going to the US

Chemistry Industry Investment

Source: Chemistry Industry Association of Canada



Data estimated for 2013, projected for 2014

Energy East



Welcome project, concern over details

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 reducing stranded cost exposure
- Support the transfer of underutilized assets from Empress to North Bay
- Issues with the transfer of the utilized North Bay Shortcut
- We should find a way to build the Energy East pipeline without harming gas markets

North Bay Shortcut

Transfer 1200 TJ of capacity from North Bay to Ottawa from gas use to oil at a net book value of \$0.4 billion plus \$0.5 billion acquisition premium & build 575 TJ of replacement capacity at \$1.5 billion from Parkway to Iroquois

- Transferring the NBS and building gas capacity on the Montreal line makes **operational** sense
 - Necessary for oil that comes from the west
 - Potentially more efficient for gas that comes from Dawn
- The transfer must also make **functional** and **economic** sense
- Problems with the current proposal
 - Functional – Potential for capacity shortage in gas markets
 - Economic – Potential for cross-subsidization
 - No analysis on the impact on secondary markets

Potential for Capacity Shortage

- NBS capacity is reduced by 1200 TJ/day
- TransCanada proposes to build only 575TJ/d of replacement capacity based on the firm contracts that resulted from their open season
- Basing future demands on FT contracts alone is problematic
- Utilities warn that 575 TJ/d will leave markets short by up to 20%
- There is material difference between utility & TransCanada future gas demand projections
- Given that it is impossible to predict the future with accuracy, prudence is necessary
- Last winter IGUA members suffered cost overruns and service interruptions with the shortcut in place
- TransCanada's 2017 New Capacity Open Season should be factored into replacement requirements and economic assessment

Potential for Cross-Subsidization

- TransCanada proposed to transfer assets at NBV of \$0.4 billion plus \$0.5 billion acquisition premium and to build new for half the capacity at \$1.5 billion
- Eastern triangle gas shippers will assume larger rate base & longer amortization
- Gas markets should not be exposed to the cost of replacement capacity or construction project cost overruns
- TCPL projections for potential toll reduction due to lower revenue requirements are yet to be tested
- Impact on tolls is unclear

Secondary Market Erosion

- Large portion of gas volumes used in Ontario are supplied through the secondary market
- Infrastructure changes should not destroy the secondary market
- Return to pipeline monopoly services could be costly and inefficient

Safeguarding Ontario Interests

- Ensure sufficient capacity remains in gas service to meet current and future Ontario demand
 - There is material difference between utility & TransCanada future gas demand projections
 - 2017 NCOS capacity should be factored into replacement requirements & economic assessment
 - Given that it is impossible to predict the future with accuracy, prudence is necessary
 - Secondary market functionality should be preserved
- Ensure transfer costs are equitable
 - Protect gas users against transfer-driven cost exposure (replacement NBS capacity cost & construction cost overrun)
- Ensure Ontario tolls remain competitive and decrease in the long term

We should find a way to build the Energy East pipeline without harming gas markets

Thank You