

The Potential Impacts of Energy East Project on the EOT



Ontario Energy Board Energy East Consultative and Review

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January 29, 2015

Ottawa, ON



Agenda



- Who is Gaz Métro?
- Natural Gas Supply in Québec
- Overview of Future Market Growth in Québec
- 2015-2030 Settlement Agreement
- Eastern Ontario Triangle («EOT») Mainline Utilization
- TransCanada («TCPL») proposed Energy East Project
 - Redeployment of Gas Assets - in the Prairies and NOL
 - Redeployment of Gas Assets - in the EOT
 - Construction / Cost Overruns Risks
- Régie de l'énergie: Energy East Project Public Consultation
- Recommendations

Who is Gaz Métro?



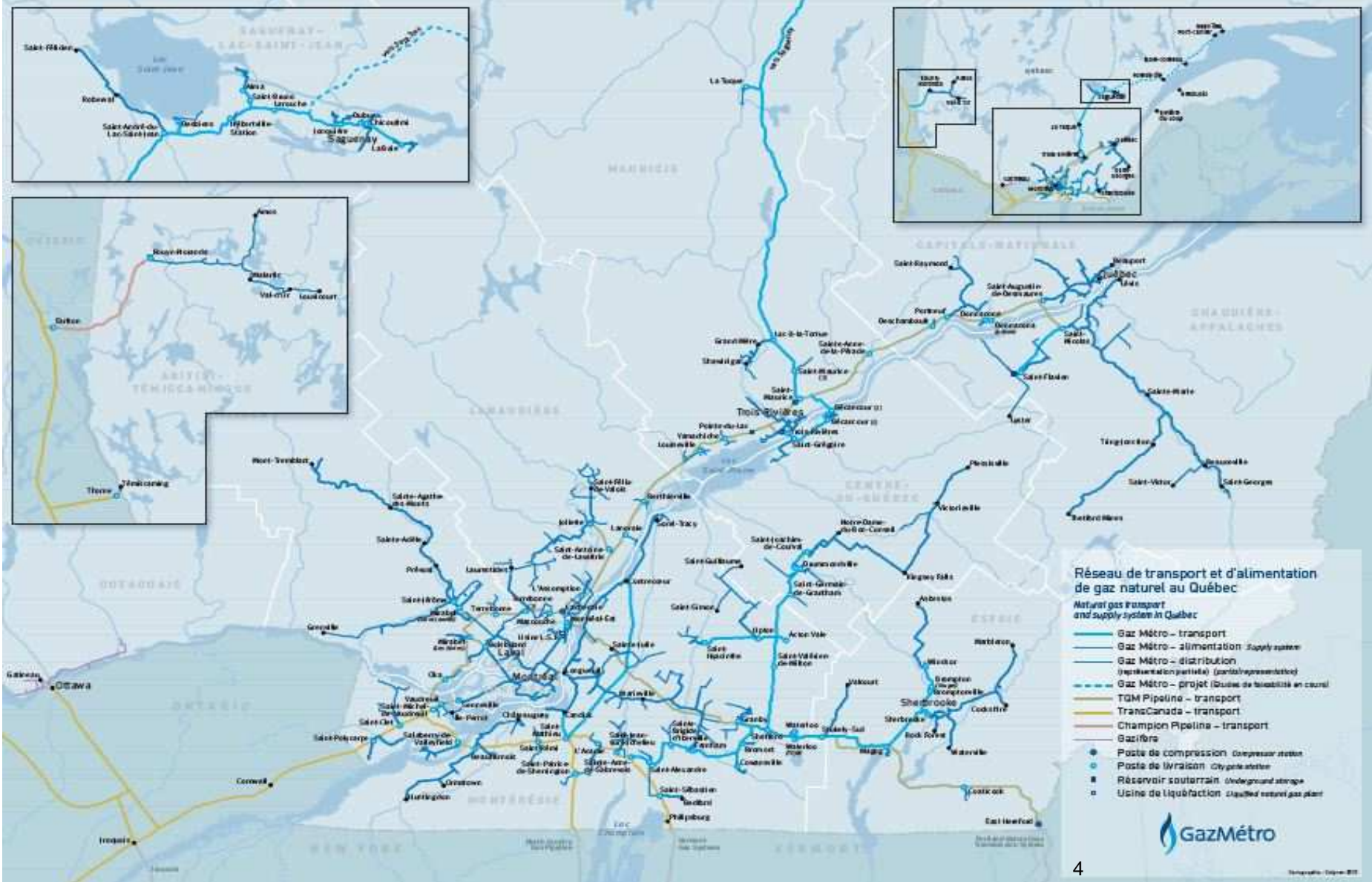
❖ Leading natural gas distributor in Québec

- Distributes 97 % of natural gas in Québec
- Presence in 12 regions and serves more than 300 municipalities
- Distribution system that extends over more than 10,000 km
- Has an exclusive right for natural gas distribution over the entire territory, except Outaouais (Gazifère), until 2031
- Public utility regulated by the Régie de l'énergie

❖ One of the four largest distributors in Canada

- More than 204 Bcf in 2014
- Close to 200,000 consumers
 - 144,000 residential consumers
 - ***Expanding customer base, due to among other things, a strong presence in new construction***
 - 45,000 businesses and institutions, several of which are public buildings like schools and hospitals
 - 7,000 large industrials

Gaz Métro Distribution Network



Natural Gas Supply in Québec



❖ TransCanada is the **sole provider** of natural gas transportation services

- TransCanada Mainline is the only source of natural gas supply for Québec consumers
- Gaz Métro's geographical position makes it almost impossible to by-pass TransCanada Mainline
- Moreover, Gaz Métro doesn't have access to production basins and to major storage facilities that could supply its franchise
- 3 in-franchise storage facilities are used for Peak Shaving Demand

❖ Gaz Métro is **captive** of TransCanada Mainline

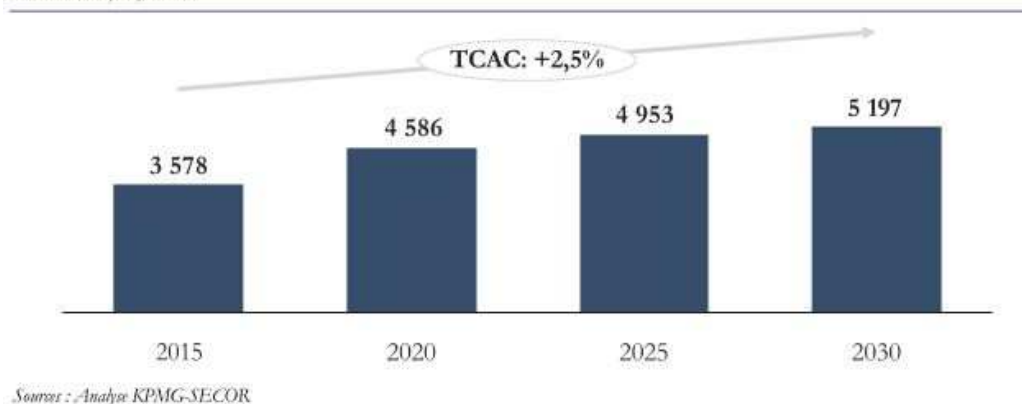
- Gaz Métro relies solely on the Mainline and on the "Ontario Gas System" to provide safe and secure gas supply to its consumers
- Any change on the transportation system will impact, to varying degrees, the Gaz Métro distribution network in the short, medium and long term

Overview : Future Market Growth in Québec



- ❖ In past years, natural gas demand has been growing in Québec
- ❖ The demand is forecasted to grow in the long term supported by natural gas competitive edge compared to other energy sources

FIGURE 18 : PROJECTION DES BESOINS INDUSTRIELS EN GAZ NATUREL AU QUÉBEC POUR LES RÉGIONS DESSERVIES
2015-2030; %; Mm³



- ❖ The Québec Government relies on natural gas to attract and develop new industrial projects and to meet its ambitious GHG reduction targets by 2020
- ❖ New partnership between Gaz Métro and Québec Government (Investissement Québec) to promote and facilitate LNG production and uses

Overview : Future Market Growth in Québec



- ❖ Actual uncertainties surrounding natural gas market are harming investment projects and the Québec economy as a whole
 - On December 16, 2014, IFFCO Canada announced that it was postponing its project

- ❖ Existing industrial customers rely on Gaz Métro to contract and provide their transportation requirements
 - On January 15, 2015, Gaz Métro applied to the Régie de l'énergie for an approval to bid for an additional 36,000 GJ/d in TCPL 2017 NCOS

2015-2030 Settlement Agreement



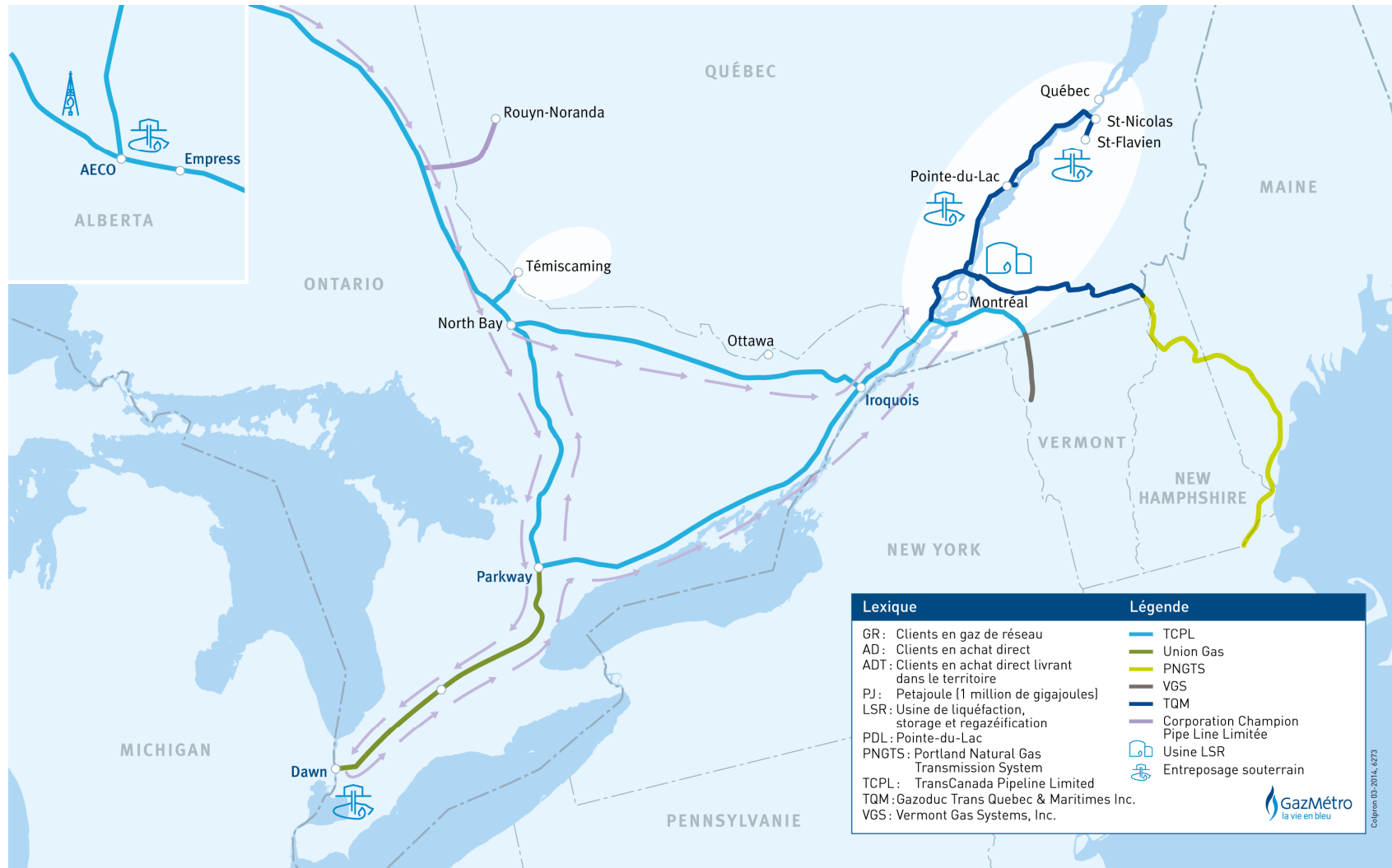
❖ 2015-2030 Settlement Agreement (LDCs and TCPL)

- Positive Decision received from the National Energy Board on November 28, 2014
- Approved segmentation of the Mainline in three distinct zones, Prairies, NOL and the EOT (Ontario and Québec)
- Critical to the development of the necessary natural gas facilities within the EOT
- Gaz Métro will share with the TCPL Eastern Mainline customers, like Enbridge and Union Gas, the costs of the Mainline until 2020 and of the EOT until 2030
- In any event, TCPL is not at risk for excess capacity in the EOT at least until 2030

❖ EOT Integrated System

- Gaz Métro shares with consumers of Ontario costs related to natural gas transportation services within the EOT
- **Ontario and Québec markets are closely linked.** As we share the overall costs of the TCPL system, any loss of opportunity in either one of those markets will have an impact on the tolls paid by Ontario and Québec gas consumers

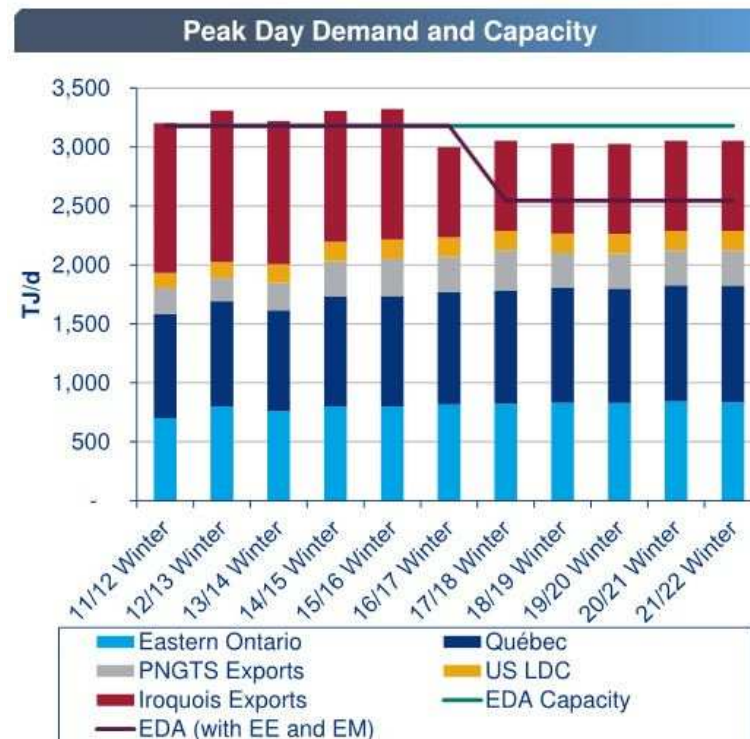
EOT: An Integrated System



EOT: Mainline Utilization



- ❖ EOT is a **critical link** for Québec consumers to access the reliable and diverse Dawn Hub
- ❖ Capacity within the **EOT is fully utilized** on peak demand days
 - For January 2015, **18 days out of 27 had zero capacity** remaining in the EOT as per TCPL Mainline Operational Status Bulletin



Energy East Project: Redeployment of Gas Assets



- ❖ TCPL proposes the redeployment of gas assets in the Prairies and the Northern Ontario Lines
 - Gaz Métro supports the transfer of any underutilized asset as it represents benefits for gas shippers

- ❖ TCPL proposes the redeployment of gas assets in the EOT
 - Gaz Métro is highly concerned with the proposed removal of 1,2 PJ/d on the North Bay to Ottawa line and the replacement of only 0,6 PJ/d within the EOT, because that capacity is fully utilized during cold days

**Eastern Ontario Triangle Capacity
Post Energy East and Eastern Mainline Projects**

	PJ/d
Peak Day Demand	3,2
Existing Capacity	3,2
North Bay to Ottawa Capacity	(1,2)
North Bay to Ottawa Capacity post Assets Transfer	2,0
Eastern Mainline Project Capacity	0,6
North Bay to Ottawa Capacity post Assets Transfer and construction of Eastern Mainline Project	2,6

Energy East Project: Redeployment of Gas Assets



- ❖ Gaz Métro agrees with the transfer of the North Bay Shortcut to Energy East only :
 - If **sufficient replacement capacity** is built to meet market demand and in-service prior to the asset transfer
- ❖ Gaz Métro believes that TCPL **planned replacement capacity is insufficient**
 - Underestimated capacity needs (2016 NCOS is not the only indicator of EOT true gas demand)
 - TCPL speculation about US market departing from EOT segment and TCPL system
 - This assumption should be properly assessed before concluding that any capacity can be removed from gas service
 - Insufficient capacity would result **in increased gas supply costs for consumers** during peak winter days

Energy East Project: Construction/Cost Overruns Risks



- ❖ **Construction cost overruns will be borne by natural gas users**
 - Natural gas consumers should not be subsidizing the oil pipeline

 - Energy East Project should bear the risks

Energy East Project: Construction/Cost Overruns Risks



❖ TCPL's ability to estimate project costs

- The King's North Project initial cost assumption was \$126 million (September 2013 as part of the 2015-2030 Mainline Settlement)
- The updated capital cost is now \$227 million for the Project (overruns of 80% in August 2014 as part of the project application)

❖ Same overruns in the Eastern Mainline Project (replacement facilities to Energy East) would mean:

- **Toll increase** for Ontario and Québec consumers
- **Destruction of value** for gas consumers contrary to TCPL's assertion of the potential benefits of Energy East for EOT shippers

Régie de l'énergie: Energy East Public Consultation



- ❖ On December 18, 2014, the Régie issued its advisory to the Ministry of Energy and Natural Resources on natural gas supply and transportation capacity required to meet Québec medium and long-term demand

➤ Main Conclusions:

- « *Given the abundance of reserves that can be developed at low cost, the Régie is of the view that **the issue of Québec's natural gas supply is essentially one of availability of transportation facilities to carry the natural gas from production sites to utilization sites.*** »
- « *However, the Régie considers that at the point where shippers say that they do not have sufficient capacity and that they are prepared to make firm commitments to get more capacity, **it would be more prudent for TCPL to ensure, using an new open season to all shippers, that the capacities required are established appropriately.*** »
- « **The Energy East project is designed to serve oil shippers. The Régie is of the view that oil shippers should bear the costs associated with the oil segment of this project. The gas segment of the project introduces costs and risks that natural gas shippers currently do not have to bear.** The Régie considers that natural gas shippers alone should not bear these costs. Accordingly, TCPL should review the project to assure gas shippers that they will not cross-subsidize the oil segment of the project and that they will not bear risks greater than those they currently bear. »

Recommendations



- ❖ **Replacement capacity within the EOT should be properly assessed** in order to meet the true natural gas demand
 - Replacement capacity should **consider needs expressed in the 2017 NCOS**,
 - TCPL should **update its applications filed** at the NEB (Energy East and Eastern Mainline Projects) and,
 - Should be built and **in-service prior to asset transfer** (including 2017 NCOS)

- ❖ **Ensure that natural gas consumers are not subsidizing Energy East and the oil shippers** (construction costs should be borne by Energy East Project)
 - **Cost / Rate Base neutrality** for Ontario and Québec consumers should be preserved at a minimum



Thank you !