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NATURAL GAS ELECTRICITY INTERFACE REVIEW DECISION EXECUTIVE SUMMARY

INTRODUCTION

This proceeding was initiated by the Ontario Energy Board in late 2005 in response to issues first raised in the Board's *Natural Gas Forum Report* and more fully explored in the OEB staff report, *Natural Gas Electricity Interface Review*. The key issues addressed in this proceeding were:

- Rates and services for gas-fired generators
- Storage regulation

The hearing participants, which included gas-fired generators and consumer groups, reached settlements with Union Gas Limited (Union) and Enbridge Gas Distribution Inc. (Enbridge) on most of the issues related to services for gas-fired generators, and the Board has approved those settlements. The oral hearing and this Decision addressed the issues which were not settled and the issue of storage regulation.

SERVICES FOR GAS-FIRED GENERATORS

The need to examine new services for gas-fired generators arises because of the increasing number of so-called "dispatchable" gas-fired power generation plants that are planned or in operation. These plants operate in response to five-minute dispatch instructions from the Independent Electricity System Operator (IESO), and, as a result, their gas consumption profiles are more volatile and difficult to forecast than the relatively stable profiles of residential, commercial and industrial gas consumers. Flexible and responsive gas services, including high-deliverability gas storage, can ensure the reliable operation of these plants and allow the plant operators to manage the financial risk of the business.

Based on the settlements, the Board has approved a number of new services aimed at the needs of the gas-fired generators, including:

- new distribution rate structures for high-volume gas consumers
- more frequent nomination windows for the distribution, storage and transportation of gas
- the inter-franchise movement of gas
- redirection of gas to different delivery points on short notice
- simpler processes for title transfers of gas in storage
- high-deliverability storage services.

There was no agreement on the price at which high-deliverability storage services should be offered. The generators argued for a regulated framework, while the utilities argued for a competitive framework. The key consideration is to ensure that new innovative services are developed. The Board concludes that the public interest is best met by refraining from regulating these services. This will stimulate the development of these services, by utilities and other providers. The Board will accordingly refrain from regulating the rates for high-deliverability storage services.

The Board has a duty to protect the interests of consumers using these services with respect to price and reliability and quality of service. The crucial factor is the availability of the service itself – namely its reliability and quality. The Board expects Enbridge and Union to fulfill their commitments respecting the offering of these services. Pricing considerations are relevant, but competitive options will provide appropriate price protection. The Board will also be developing a reporting mechanism and complaint process to deal with any issues which arise.

NATURAL GAS STORAGE REGULATION

Union and Enbridge operate large underground gas storage facilities in southwestern Ontario. Those facilities, which are connected to multiple gas transmission pipelines, are part of what is known as the Dawn Hub, one of the more important natural gas market centres in North America.

The issue in this hearing was whether the Board should refrain from regulating the prices charged for storage services. Section 29 (1) of the *Ontario Energy Board Act, 1998* states:

On an application or in a proceeding, the Board shall make a determination to refrain, in whole or in part, from exercising any power or duty under this Act if it finds as a question of fact that a licensee, person, product, class of products, service or class of services is, or will be, subject to competition sufficient to protect the public interest.

Competition in Storage

The Board has concluded that Ontario storage operators compete in a geographic market that includes Michigan and parts of Illinois, Indiana, New York and Pennsylvania. The Board finds that the market is competitive and that neither Union nor Enbridge have market power.

Price Regulation

The Board will cease regulating the prices charged for the following storage services:

- all storage services offered by Union and Enbridge to customers outside their franchise areas;
- new storage services offered by Union and Enbridge to their in-franchise customers; and,
- all storage services offered by other storage operators, including storage operators affiliated with Union and Enbridge.

Rates for storage services provided to Union's and Enbridge's distribution customers will continue to be regulated by the Board on a cost-of-service basis.

Union's existing storage capacity is well in excess of the current needs of its in-franchise customers and has been for many years. The Board has decided that Union will reserve approximately two-thirds of its existing capacity for in-franchise needs. At current rates of growth, that amount limit will satisfy in-franchise needs for several decades. Enbridge currently purchases storage from Union for a portion of its requirements. The Board has decided that Union will continue to provide these services at cost through a transition period ending in 2010.

Sharing the Premium on Ex-Franchise Sales

The sale of storage services by Union and Enbridge at market-based rates to ex-franchise customers has generated revenues well in excess of the cost of providing those services. Until now, the Board has required that most of the profits be used to reduce distribution rates. The Board has concluded that this sharing should continue for short-term storage deals. These are storage transactions that use storage space that is temporarily surplus to in-franchise needs. All of the profits on these transactions, less small incentive payments to the utilities, will be for the benefit of ratepayers.

The Board finds, however, that Union will not be required to share the profits on long-term storage transactions that use storage space not needed to serve in-franchise needs because that capacity now constitutes a "non-utility" asset for which the shareholders appropriately bear the risk. The sharing of these profits will remain unchanged for 2007 and then be phased out over the period to 2011.

Impact on Consumers

The Board's decisions are expected to have virtually no effect on consumers' bills in 2007. The impact after that cannot be precisely quantified because it will depend on future storage prices, the profit on ex-franchise storage sales, and the amount of gas consumed. While a precise forecast is not possible, bills are likely to increase by a small amount – perhaps around 1% for the typical residential consumer.