

EVIDENCE
OF
GAZ METRO LIMITED PARTNERSHIP

EB-2005-0551

Introduction

1. Gaz Métro Limited Partnership (“Gaz Métro”), as it is now known, was founded in 1957 when natural gas originating from Western Canada was first made available to the Montreal market area. Gaz Métro is the largest natural gas distributor in Québec, accounting for 97% of all the volumes distributed in the province. Its assets are valued at more than \$2.5 billion and it currently employs more than 1 500 employees. Its distribution system consists of almost 10,000 km of pipe¹ and serves more than 167 000 customers in various regions of the province of Québec. Gaz Métro distributed almost 214 PJ of natural gas in 2005 generating revenues of \$1.8 billion. Gaz Métro has been given an “A” credit rating by Standard and Poor and DBRS.
2. The volumes distributed on Gaz Métro’s system can be broken down as follows:

Sector	Customers	Throughput
Industrial	3.7%	58.7%
Residential	71.6%	11.8%
Commercial and Institutional	24.7%	29.5%
TOTAL	100%	100%

3. As appears from schedule B², Trencap Limited Partnership, Enbridge Inc, and Gaz de France are through their ownership of Noverco Inc., three of the principal equity holders of Gaz Métro. The remaining shares are publicly traded.

¹ A system map is appended hereto as Schedule A

² A detailed corporate structure is appended hereto as schedule B

Issues raised by the OEB

3. Gaz Métro wishes to point out at the outset that its distribution activities are carried out in Quebec and that it therefore has no need for any of the services offered by the two Ontario distributors, other than the storage and transportation services required of Union Gas («Union») to meet its franchise load balancing needs. Gaz Métro's evidence is therefore limited to the *Storage regulation* issue identified as issue # 2 in the Board's Procedural Order no. 1.
4. Since Gaz Métro ensures that the load balancing needs of all its customers are met, the primary purpose of its evidence is to inform the OEB that access to Union's storage services is vital to its operations. Gaz Métro also wishes to underline the fact that its long business relationship with Union and the contracts it has entered into with that company have been beneficial to all of Union's franchise customers. It is equally important to mention that all of Gaz Métro's contracts with Union have been approved by the OEB since the very beginning in 1975.
5. Access to Union's storage capacity at Dawn has been an integral part of Gaz Métro's supply management plans for more than 30 years³. Gaz Métro first contracted for Union storage services in 1975. This contract was for 2.1 PJ of storage capacity and had a term of four (4) years. The storage capacity contracted with Union by Gaz Métro steadily increased over the following years to reach a level of 22.6 PJ by 1989. Gaz Métro has since then continuously maintained this level of capacity and has no intention of relinquishing any part thereof.
6. The tolls paid by Gaz Métro for its storage services during the period extending from 1975 to 2001 were cost based, as was the case for all other Union franchise customers. In 1998, the OEB allowed Union to charge market based tolls for its out of franchise customers having executed long term contracts. The OEB also granted a two year transition period in which parties could renew contracts and continue to pay the cost based tolls. Gaz Métro started to pay the new market based tolls in 2001 for the contracts which were renewed as of that date. The tolls paid by Gaz Métro are more than twice as high as those paid by franchise customers.
7. It is Gaz Métro's understanding that 90% of the differential between the cost based tolls and the market based tolls it is required to pay is redistributed to Union franchise storage customers while the remaining 10% is paid to Union's shareholders. Gaz Métro submits that by paying such higher tolls, it has and continues to make a significant contribution towards the reduction of the costs of Union's franchise customers. Gaz Métro also wishes to underline the fact that it is Union's largest out of franchise customer holding 32% of the storage capacity sold by Union to out of franchise customers. Moreover Gaz Métro has never hesitated to enter into long term

³ Gaz Métro's contracting history with Union is appended hereto as schedule C

contracts and to pay the tolls associated therewith which also proved to be beneficial to all of Union's franchise customers by insuring long term revenue generation from a credit worthy customer. Gaz Métro has since 2001 paid approximately \$100 million for its storage services. The annual amount paid by Gaz Métro for its Union's storage services is included into its cost of service and flowed through, at cost, to its franchise customers.

Dawn and TransCanada's integrated transmission system

8. As early as 1972⁴, the National Energy Board ("NEB") recognized the economic importance of the Dawn storage site for TransCanada's Eastern zone customers and refused to remove the Dawn storage site from that zone. TransCanada's integrated system extends from Empress in Alberta to St-Nicolas near Quebec City. There are five (5) tolling zones on the system and all of the customers located within a zone pay the same toll for their transportation services⁵. The Eastern zone, which includes Gaz Métro's franchise area, is by far the largest zone, both from a distance and volume prospective, and as such represents TransCanada's largest domestic market.
9. Although wholly located within the province of Ontario, the Dawn storage site nonetheless forms an integral part of the daily operations of a significant number of shippers on the TransCanada system. It is in large part dependent on the Western Canadian Sedimentary Basin ("WCSB") for its supply and it is, in Gaz Métro submission, fully integrated into the TransCanada system from an operational point of view.
10. In 2003⁶, the NEB accepted TransCanada's request to remove the Dawn storage site from the Eastern zone and to create the Southwest Zone ("SWZ"). In rendering its decision, the NEB recognized that TransCanada needed to increase its competitiveness with regard to the other pipelines serving Dawn. The NEB also recognized the importance of Dawn for the increasing number of customers, including out of franchise shippers, wishing to purchase their gas supply locally. Indeed, the storage capacity and pipeline interconnects allow Dawn to act as a major balancing point between flows from Western Canada and other major supply basins and the demand centres in Ontario, Quebec and the Eastern United-States.
11. TransCanada has, since November 1st, 2003, been allowed to charge a point to point toll for services between Empress and the Southwest Zone. This zone, which includes the Dawn delivery point, is the only domestic point for which a point to point toll is applied compared to all of the other domestic points on the TransCanada system which are tolled on a load centre basis. The unique nature of the tolling methodology

⁴ RH-1-72, section 6

⁵ A map of the TransCanada system is appended hereto as Schedule D

⁶ RH-1-2002, section 8

used for the Southwest Zone is further demonstrated by the fact that no other zone contains a point for which the tolls are established in this manner.

12. TransCanada has been offering its *Storage Transportation Service* (“STS”) since 1975 which allows a shipper to withdraw the gas it has previously injected into the Dawn storage site. The intent of this service was to find a competitive alternative to seasonal peak shaving supplies. Because of the underutilization of firm transportation service in the summer, as a result of contracting for winter peak loads, firm service was not competitive. TransCanada designed and negotiated the STS service with the Local distribution companies (“LDCs”) to enable them to lower their FT contract level to something below peak day requirement thereby causing a saving of FT Long-haul demand charges and utilize their summer season more effectively while still meeting the winter peak daily requirement. This service in essence confirms the importance of the Dawn storage site for TransCanada's operations.
13. TransCanada also allows its shippers to divert gas volumes to Dawn when actual consumption is lower than expected provided such gas diversion is operationally possible. Shippers are thus allowed to maximize their transportation contracts. TransCanada also optimizes its own system since the diverted volumes have the effect of freeing transportation capacity that may be used to pursue other opportunities.
14. The availability of large quantities of storage capacity at Dawn has had a significant impact on the size and configuration of the TransCanada system by reducing the level of pipeline capacity required to meet peak winter loads. In the absence of Dawn, TransCanada would have been compelled to construct additional facilities between Empress and the Eastern zone. Such a development would have been detrimental to all since the additional costs resulting from the construction of the additional facilities would have been borne by all system users. Consequently, the presence of storage facilities at Dawn has been beneficial for all TransCanada system users, including Ontario distributors and shippers, who have paid lower transportation tolls than would otherwise have been paid in the absence of Dawn.

The use of Dawn storage capacity as a load balancing tool:

15. Gaz Métro withdraws gas from Dawn on most of the 176 days of the winter period extending from November 1st to April 15th of the following year. Because Gaz Métro uses its storage capacity to meet the load balancing needs of its franchise, the amount of gas withdrawn from Dawn varies from day to day. Since the amount of gas consumed in the franchise on any given day is highly dependent on temperature variations, the storage capacity at Dawn provides Gaz Métro with the necessary flexibility to ensure a reliable and secure supply of gas to its customers.
16. In order to gain access to the gas it stores at Dawn, Gas Métro has entered into two types of transportation arrangements:

- A Storage Transportation Service (STS) agreement with TransCanada which allows Gaz Métro to withdraw 216 174 GJ of gas on a daily basis during the winter period.
 - Short Haul Firm Transportation agreements for a total of 110 000 GJ from Dawn.
17. Gaz Métro occasionally purchases and sells transportation on the secondary market in order to optimize its services.
18. The vital importance for Gaz Métro of substantial storage facilities such as those located at Dawn is augmented by the fact that these facilities are situated at a reasonable distance from its franchise. Storage facilities should ideally be located where the gas is consumed. Unfortunately, this ideal situation rarely exists and even more so in the case of Gas Métro which is not only dependent on a single supply basin (WCSB) and on a single transportation system (TransCanada) but also in essence depends on a single storage site. Any toll increase for any of the above supply chain components has a direct impact of the competitiveness of natural gas in the Québec energy market which is dominated by hydroelectricity. Each cent saved on storage services or on any other services of the supply chain is crucial to the development and consolidation of the Québec gas market.
19. The consumption profile of Gas Métro's customers clearly highlights the need for storage and load balancing. For example, the throughput on Gas Métro's system is expected to approximate 214 PJ/d in 2006⁷ with a winter peak day of 1,198 TJ and a summer valley of 230 TJ resulting in a daily average throughput of 586 TJ/d⁸. These numbers clearly illustrate the high heating load profile of the Québec gas market which has a winter peak that exceeds the summer valley by a ratio of 5 to 1. This situation is expected to worsen over time since the percentage variation in the peak day increases at a greater rate than the variation in the total annual consumption in the franchise. Such peak day increases obviously have an impact on Gaz Métro's needs to secure storage and load balancing tools.
20. This situation also clearly illustrates the importance of storage capacity for Gaz Métro in developing its supply strategy. As mentioned above, storage at Dawn has been an integral part of Gaz Métro's strategy for more than 30 years. Gaz Métro has always considered Dawn as the lung of the Eastern zone and cannot imagine a situation where it would be denied access to such storage in the event of a policy change

⁷ The figures shown for 2006 are those estimated by Gaz Métro in its supply plan deposited with the Régie de l'énergie.

⁸ These number will be slightly different upon the placing into service of the TransCanada Energy plant in Bécancour.

having the effect of reserving all or part of the storage available at Dawn for Union's franchise customers.

21. Because of its geographic location, Dawn represents the only reasonable storage option for Gaz Métro outside of its franchise area. The use of other sites would not be economically attractive by reason of the greater distance in addition to a number of operational constraints.

Answers to the OEB's questions regarding storage regulation:

- 1. Do gas utilities (and/or their affiliates) either collectively or individually have market power in the provision of storage services for all or some categories of customers in Ontario?**
22. As mentioned previously, Gaz Métro first contracted for Union storage capacity in 1975. Although they were negotiated with Union, all of Gas Métro's storage contracts were approved by the OEB. Gaz Métro has no reason to believe in the current context that Union exercises market power in providing storage services and has had no reason to complain of the services rendered to it by Union.
23. Gaz Métro purchases and sells gas in the Dawn spot market. Gaz Métro further believes that the number of players that are active in that market, the existence of five pipelines linking Dawn to various North-American supply basins and the substantial storage capacity at that site all contribute to making Dawn a liquid market.
24. It goes without saying that a number of users would be denied access to storage in the event a party were in a position to exercise market power at Dawn. Gaz Métro does not believe that this is currently the case since out of franchise customers have access to Dawn storage capacity if they are prepared to pay market tolls. Gaz Métro believes that this illustrates the fact that the storage market at Dawn functions freely and that no party is currently in a position to unduly influence the market. This is consistent with the deregulation of storage services for out of franchise customers which deregulation is predicated on an unhindered market environment.
- 2) If gas utilities (and/or their affiliates) do have market power in storage, is it appropriate for them to charge “market rates” for transactional and long-term storage services?**
25. Please refer to the previous answer.
- 3) If gas utilities (and/or their affiliates) do not have market power, is it in the public interest that all or some customers continue to pay storage rates at cost as opposed to market rates? How should the extra revenue from storage services at market rates be allocated?**

26. Gaz Métro has been paying market tolls since the deregulation of storage services for out of franchise customers. Gaz Métro also purchases storage services from two small sites in Québec, St-Flavien (4.4 PJ) and Pointe du Lac (0.9 PJ), at tolls which are reflective of market prices.
27. Gaz Métro believes that the current system remains viable even if the demand for storage services is expected to increase. Even as an out of franchise customer, Gaz Métro believes that it has nonetheless acquired the right to maintain its access to Union's storage services by reason of its long business relations with that company. Gaz Métro is not seeking preferential treatment but believes that its access to Union's storage services should not be denied or in any way restrained solely by reason of its geographic location, particularly if it is prepared to pay the market price for such services. Any other solution would in Gaz Métro's submission be discriminatory.
28. Gaz Métro submits that if additional storage or load balancing tools are required, the Board should foster the creation of an environment that would encourage the development of such tools rather than denying access to long standing customers for the benefit of new comers. Removing capacity from a long standing customer who has contributed to the development of existing storage capacity for the benefit of new comers does not constitute a proper solution to the problem and would in Gaz Métro's view be unduly discriminatory.
29. Having taking cognizance of the OEB reports regarding Natural Gas Regulation in Ontario: A Renewed Policy Framework⁹ and Natural Gas Electricity Interface Review¹⁰, Gaz Métro is very preoccupied by the OEB's forecasts regarding the storage needs of electric generators and by the possibility that Union could be required to "clawback¹¹" all or part of the capacity currently sold to its out of franchise customers for the benefit of its franchise customers.
30. Gaz Métro and other out of franchise customers would be virtually expelled from the Dawn market. The OEB should not lose sight of the fact that out of franchise customers have over the years contributed significantly to the development of the storage site operated by Union. It should also be born in mind that the benefits enjoyed by Union franchise customers by reason of the higher market tolls paid by the out of franchise customers, would in such scenario completely disappear and result in higher tolls for franchise customers.

⁹ Report on the Ontario Energy Board, Natural Gas Forum. March 30, 2005.

¹⁰ A report by the Ontario Energy Board Staff. November 21, 2005.

¹¹ Ibid, p. 17

31. Gaz Métro therefore submits that preventing access to out of franchise customers would have a perverse effect on storage tolls in Ontario and would inhibit the development of additional storage capacity.
32. Furthermore, it is important not to negatively impact the workings of the natural gas market to the advantage of the electricity market which would simply transfer a problem from one industry to the other.
- 4) If the Board determines, based on considerations of market power and the public interest more generally, that some customers should pay for storage services at cost and others should pay for storage services at market prices, how should the line be drawn between the two types of customers and, specifically, should there be a constraining allocation of physical storage facilities to some types of customers based on measures such as aggregate excess or whether customers are considered “in-franchise” or “ex-franchise”? How should the extra revenue from storage services at market rates be allocated?**
33. Because it is not regulated by the Board, Gaz Métro does not intend to make any recommendations with regard to the manner in which revenues generated by out of franchise customers should be allocated and prefers to leave this matter to the Board's judgment.
34. Having said that, Gaz Métro is of the view that should the OEB conclude that the existing system is no longer appropriate, further steps toward total economic deregulation would be a more equitable and preferable solution to any form of discrimination based solely on the geographic location of customers.
35. The OEB would in such instance no longer be required to consider the geographic location factor. Furthermore, although the distinction between customers solely on the basis of this factor may at first glance appear attractive because it is easy to apply, it nonetheless remains a form of discrimination. Customers are indeed receiving a similar service but are not being billed on the same basis which is in Gaz Métro's submission, contrary to widely accepted regulatory principles.

APPENDIX A



ONTARIO

T MISCAMINGUE

ONTARIO

ONTARIO

NEW YORK

North Country Gas Pipeline

Vermont Gas Systems

VERMONT

NEW HAMPSHIRE
Portland Natural Gas Transmission System



SUD DU QU BEC

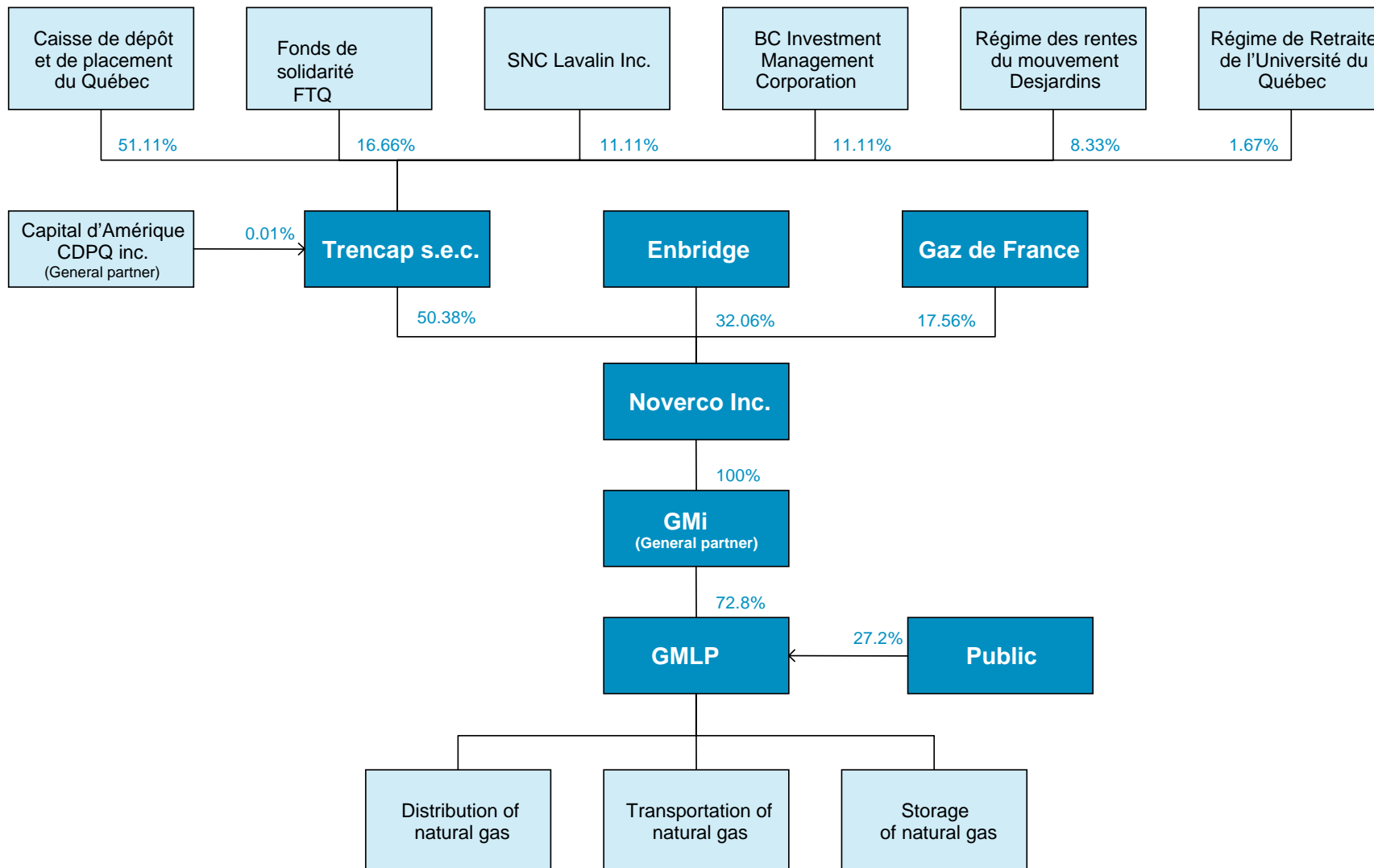
r seau de gaz naturel au Qu bec

- Gaz M tro
- TQM
- TCPL
- Champion Pipe Line



APPENDIX B

Corporate Structure as of October 1, 2005



APPENDIX C

UNION GAS Storage Contractual History									
	Contract 1979	Contract 1985	Contract 1988	Contract 1989	Contract 2001 LST014	Contract 2003 LST030	Contract 2004 LST036	Contract 2005 LST049	Total
	Pj	Pj	Pj	Pj	Pj	Pj	Pj	Pj	Bcf
1975	2,1								2,1
1976	4,8								4,8
1977	4,8								4,8
1978	4,8								4,8
1979	6,4								6,4
1980	6,4								6,4
1981	6,4								6,4
1982	6,4								6,4
1983	6,4								6,4
1984	6,4								6,4
1985		6,4							6,4
1986		10,6							10,6
1987		14,7							14,7
1988		14,7	5,9						20,6
1989		14,7	5,9	2					22,6
1990		14,7	5,9	2					22,6
1991		14,7	5,9	2					22,6
1992		14,7	5,9	2					22,6
1993		14,7	5,9	2					22,6
1994		14,7	5,9	2					22,6
1995		14,7	5,9	2					22,6
1996		14,7	5,9	2					22,6
1997		14,7	5,9	2					22,6
1998		14,7	5,9	2					22,6
1999		14,7	5,9	2					22,6
2000		14,7	5,9	2					22,6
2001			5,9	2	14,7				22,6
2002			5,9	2	14,7				22,6
2003				2	14,7	5,9			22,6
2004					14,7	5,9	2		22,6
2005					14,7	5,9	2		22,6
2006					10,3	5,9	2	4,4	22,6
2007					7,3	5,9	2	4,4	19,6
2008					7,3	5,9	2	4,4	19,6
2009					7,3		2	4,4	13,7
2010					7,3		2	4,4	13,7

APPENDIX D

CURRICULUM VITAE

Name: Frédéric Morel

Fonction: Senior Manager
Contractual affairs, Gas supply
Gaz Métro

Formation: Bachelor of laws (LL.B.), Montréal University 1991
Québec's Bar Association – 1992

Experience: Senior manager, Contractual affairs, Gas supply
Gaz Métro
(2005)

Contractual affairs advisor
Gaz Métro
(1997-2005)

Legal advisor
Gaz Métro
(1995 to 1997)

Appearances: (Régie de l'énergie)

R-3510-2003
R-3596-2006

CURRICULUM VITAE

NAME: SOPHIE BROCHU

TITLE: Executive Vice President
Quebec Distribution
Gaz Métro

EXPERIENCE: Sophie Brochu has been working in the energy industry for more than 15 years. She started in 1987 as a Financial Analyst with SOQUIP (Société québécoise d'initiatives pétrolières), where she was appointed Assistant to the President from 1990 to 1992, following which she was promoted Vice President, Development, a position she held until 1997.

Madame Brochu then moved to Gaz Métro, the main gas distributor in Quebec, as Vice President, Business Development. In 2000, she was given the additional responsibilities of strategic planning and gas supply for Gaz Métro.

In 2003, she took on new challenges when she accepted the position of Vice President, Customers and Gas Supply. Her responsibilities covered the Company's sales, marketing, customer service and gas supply activities. In October 2005, Madame Brochu was appointed Executive Vice President and is now responsible for all of the activities related to the distribution of gas in Quebec.

EDUCATION: Madame Brochu is a graduate in economic sciences from the Université Laval à Québec where she specialized in the energy field.

APPEARANCES: (Régie de l'énergie)

R-3426-99	R-3526-2004
R-3463-2001	R-3529-2004
R-3484-2002	R-3559-2005
R-3492-2002	R-3579-2005

(National Energy Board)
RH-3-2001
GH-6-96
GH-1-97
