File No.EB-2005-0551

ONTARIO ENERGY BOARD

IN THE MATTER OF a proceeding initiated by the Ontario Energy Board to determine whether it should order new rates for the provision of natural gas, transmission, distribution, and storage services to gas-fired generators (and other qualified customers) and whether the Board should refrain from regulating the rates for storage of gas.

WRITTEN ARGUMENT OF
DIRECT ENERGY MARKETING LIMITED
August 28, 2006

As a vertically integrated gas marker, managing the purchase and delivery of natural gas supply to business and residential customers in Ontario, Direct Energy Marketing Limited (Direct Energy) has customer and business interests in the outcome of the NGEIR proceeding, and is providing the following submissions to assist the Board with its review of the proposed changes to the regulation of natural gas storage is in Ontario.

Although not an active participant in the Settlement Agreement, Direct Energy understands that the underlying assumptions of that agreement were that:

1. existing customers would not be adversely impacted;
2. core customers would continue to receive storage allocations at cost; and,
3. new storage services for gas-fired generators, and other qualified customers, would be provided at market-based rates.

Direct Energy further understands that the storage forbearance proposals by Enbridge Gas Distribution Inc. ("EGD") and Union Gas Limited ("Union") assume that new storage will be developed and offered at market based rates with any new system storage being acquired by EGD and Union being purchased at market prices and blended into the cost-based storage of each utility, so that overtime the cost-based rates will transition, albeit very slowly, towards market pricing. In general, Direct Energy supports this approach as it will allow natural gas consumers in Ontario to continue to benefit from storage facilities developed under cost-of service regulation while encouraging the development of new storage facilities in Ontario without requiring ratepayers to assume market risk and reward trade-offs that are better managed by the private sector.

Accordingly, Direct Energy recommends that the Board approve the EGD and Union storage proposals subject to the three assumptions stated above plus the following two conditions, namely that:

1. system and direct purchase customers continue to receive a fair allocation of storage at cost; and,
2. competitive and regulated storage activities are separated and offered on an unbundled basis.

The first condition is required to ensure that residential customers are not adversely impacted by their supply choices and that they can return to system gas with their allocated storage and transportation. Union currently offers an unbundled service that allocates a portion of storage and transportation capacity to customers who select a direct purchase option. Under this regulated service, marketers manage the allocated assets to meet the daily delivery requirements of their customers. If a customer decides to return to system gas or to switch to another marketer, the storage and transportation allocations transfer with the customer, so that customer choice is not impaired and marketers do not retain the transportation and storage assets.

The second condition is required to ensure fair and open competition for new storage developments, including any enhancements of regulated storage facilities. As noted in Enbridge Energy Distribution Inc's argument (pp 2-4), the development of storage in Ontario has become increasingly costly due to economies of scale, higher development costs and more remote smaller storage reefs. Under these conditions, Direct Energy submits that an open competitive market for storage is the best means of attracting investment for new storage development in Ontario and ensuring that ratepayers are not required to assume the increasing risks of future storage investment. Direct Energy recommends that new storage facilities be developed competitively to ensure that resources are allocated efficiently and services are provided at the lowest market cost.

In Direct Energy's opinion, the determining factor for the Board should not be whether there is sufficient competition to forbear from regulating utility cost-based storage rates, but rather is there sufficient competition to forbear from regulating the rates charged by third-party competitive storage providers of new storage. Forbearance from regulating the rates of new gas storage providers would not preclude the Board from continuing to regulate utility storage rates and the underlying costs whether they accrue from regulated assets or from purchases of competitive storage. Nor would forbearance of third-party storage rates, prevent the Board from requiring EGD or Union to demonstrate that the cost of purchasing incremental storage or storage alternatives does not exceed the cost of developing new storage facilities within the utility. And finally, forbearance per se would not be prevent the Board from requiring EGD and Union to develop and use an appropriate allocation methodology to ensure that regulated customers are not adversely impacted by commercial decisions to enhance existing storage facilities. Under these conditions, Direct Energy contends that Ontario natural gas consumers will be best served through the competitive provision of new storage facilities and the continued regulation of cost-based storage.

In addition to facilitating private sector investment in new storage, Direct Energy also contends that the provision of unregulated storage services will facilitate the transition to a more competitive gas supply market in Ontario. While further service unbundling and system gas pricing reviews are required under the Natural Gas Forum to complete this transition effectively, that fact should not prevent the natural gas industry from starting to work towards that goal today.

ALL OF WHICH IS RESPECTFULLY SUBMITTED BY

Yours truly,
DIRECT ENERGY
Per:

Dave Matthews
Director, Government & Regulatory Affairs – Eastern Canada