



**Canadian
Manufacturers &
Exporters**

Ontario Division

**NATURAL GAS ELECTRICITY INTERFACE REVIEW
(NGEIR)**

EB-2005-0306

Canadian Manufacturers & Exporters

Submission

September 29, 2005

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1.0 Introduction

1.1 Canadian Manufacturers & Exporters (CME)

- 1.0 CME members represent 75% of all manufactured output in Canada (Ontario) and 90% of exports. Although many CME members are large corporations, nearly 80% are small to medium sized companies (SMEs).
- 2.0 CME began as the Canadian Manufacturers' Association in 1871 and was incorporated by an Act of Parliament in 1902. It is a not for profit organization funded by membership fees.
- 3.0 The CME's vision is to improve the competitiveness of Canadian industry and to expand Canada's export business. Energy costs are an important component of competitiveness.

1.2 Natural Gas Electricity Interface Review (NGEIR)

- 4.0 The Ontario Energy Board's (OEB) March 30, 2005 Natural Gas Forum (NGF) report states that ensuring the adequacy of Ontario's natural gas infrastructure to meet the demands of growth in natural gas demand driven by new gas-fired generators is an "important and immediate priority".
- 5.0 This priority is reinforced by the government's announcement of six projects for 2225 MW of new gas-fired generation. Most of this generation aims to be available by late 2007 or early 2008.
- 6.0 In its NGF Report, the Board committed to review gas electricity interface issues, namely:
 - 6.1 Identification of gas storage and transportation network expansion needs to accommodate additional gas-fired generators;
 - 6.2 Allocation of costs of any additional infrastructure investments;
 - 6.3 Rate design for storage and transportation services for gas-fired generators; and
 - 6.4 Co-ordination mechanisms between gas and electricity system operations.
- 7.0 Issues 6.1, 6.2 and 6.3 relate to the development of new infrastructure and services to meet the needs of new generators and focus on three key questions:
 - 7.1 What are the service and infrastructure needs of gas fired generation;
 - 7.2 What new assets and services are required to meet the need; and
 - 7.3 How will they be paid for?
- 8.0 The key NGEIR deliverable is a report that sets out scenarios, gas infrastructure and services needs and options to the year 2012 that cover the range of requirements for natural gas power generation and the impact of peak demand for natural gas.

1.3 Structure of Submission

- 9.0 This submission is in three parts:
 - 9.1 Policy Context
 - 9.2 Scope of NGEIR
 - 9.3 Substantive Issues.

2.0 Policy Context

- 10.0 CME is aware that the Ontario Energy Board (OEB) has ruled that the government’s policy to phase out coal-fired electricity generation is “off the table” and is not part of the NGEIR process.
- 11.0 While acknowledging that the Province’s “off coal” policy is not open for discussion in this forum, CME nonetheless strongly believes that this policy will have serious economic implications for Ontario and Canada, arising from:
 - 11.1 Significantly higher electricity and natural gas prices.
 - 11.2 Greater natural gas prices volatility.
 - 11.3 Reduced electricity generation fuel supply diversity
- 12.0 Notwithstanding these known negative consequences, a poorly executed NGEIR process could significantly exacerbate price, supply, and diversity aberrations. It is with these issues that CME deals with in this submission.

3.0 NGEIR Terms of Reference

3.1 Objective

- 13.0 In CME’s view the OEB needs to state a clear, measurable objective for NGEIR.
- 14.0 The objective should be along the lines of:

Given the Government’s “off coal” policy, to identify the most cost effective way additional natural gas generation can be introduced into Ontario without harm to the Province’s economy.

3.2 Scope too narrow

- 15.0 The NGEIR currently places too much emphasis on technical, electricity supply side issues and the needs of gas generators. Not enough attention is being given to:
 - 15.1 The economic impact for Ontario of the replacement of coal fired generation with natural gas fired generation in terms of higher and more volatile electricity and natural gas prices.
 - 15.2 The resulting cost pressures on manufacturers and exporters and their ability to

remain competitive and willingness to invest in Ontario.

- 15.3 There is no evidence that the analysis will include sensitivities to the assumptions being employed as set out in the Elenchus Research presentation of September 19, 2005, slides 11 and 12.

3.3 Gas Supply / Demand Scenarios

- 16.0 NGEIR needs to consider a number of supply / demand scenarios that deal with:

- 16.1 A range of different sized gas fired generators and distributed generation.
16.2 Differing gas price scenarios.

4.0 Substantive Issues

- 17.0 This section deals with eight substantive issues:

- 17.1 Access to fully depreciated storage.
17.2 Firm Supply / Interruptible Supply
17.3 By-pass
17.4 Stranded Assets / Allocation of Costs
17.5 Integrated Resource Planning
17.6 Who should pay?
17.7 Postage Stamp Rates
17.8 Economic Impact

4.1 Access to Fully Depreciated Storage

- 18.0 Should natural gas generators have access to Ontario's fully depreciated gas storage or should they to pay full market prices for storage?

CME Position

- 19.0 Natural gas generators should not have access to Ontario's storage at depreciated rates but should be required to pay full market rates. This will avoid natural gas customers subsidizing electricity customers.

4.2 Firm Supply / Interruptible Supply

- 20.0 Current Clean Energy Supply (CES) contracts between power generators and the OPA means that if the combined industrial and power market generation gas demand exceeds the remaining gas supply the utilities must curtail industrial companies with interruptible supply contracts

- 21.0 Payments under CES contracts are based on the daily index price of natural gas at Dawn during periods when a plant is deemed to be operating. Gas generators argue that if they are

required to purchase and deliver gas to a transporter when the plant is not running, its actual gas purchases will no longer track the daily prices under the CES contract, increasing the financial risk of the project.

- 22.0 The electricity industry is virtually on a real-time basis and the gas industry is on a day-ahead basis. Significant changes are required to the operating practices of either or both natural gas fired generators or the gas industry.
- 23.0 Interruptible service is currently driven by weather and security of supply considerations but natural gas generation will introduce a new and more frequent level of interruptible supply. This will negatively affect the cost of manufacturing and competitiveness.
- 24.0 Increased interruptions could occur if power generators are not required to deliver to the utility franchise area the daily volumes of gas needed to operate power plants.

CME Position

- 25.0 It is unacceptable that interruptible industrial customers should face increased curtailment driven by the needs of power generators.
- 26.0 The increased risk of interruption by manufacturers could be removed if the power generators were required to deliver sufficient gas volumes to the utility franchise area on days they are operating and have the transportation at the utility level. This would require power generators to contract for:
 - 26.1 Sufficient firm gas supplies to meet their load requirements
 - 26.2 Firm pipeline transportation capacity to permit firm delivery of gas supplies to the utility franchise area and capacity at the utility level to deliver to the plants.
- 27.0 If manufacturers experience curtailments of deliveries of gas:
 - 27.1 Some manufacturers will contract for firm service, reducing supply flexibility currently enjoyed by utilities from this class of customer.
 - 27.2 Some manufacturers will find the higher cost of gas, coupled with greater risk and frequency of interruptions unacceptable and reduce their Ontario operations or close down
 - 27.3 Some manufacturers will switch permanently to an alternative fuel, typically coal or heavy fuel oil, defeating the objective of CES contracts.

4.3 By-Pass

- 28.0 Should natural gas generators be able to by-pass utilities and connect directly to transmission pipelines?

CME Position

- 29.0 Natural gas generators should not be able to by-pass natural gas utilities and connect directly to transmission pipelines.

4.4 Stranded Assets / Allocation of Costs

- 30.0 Who should pay for assets built to accommodate the requirements of gas generators that

become “stranded”?

CME Position

- 31.0 Costs associated with assets built to meet the needs of gas generators should be charged only to natural gas generators.
- 32.0 The cost of stranded assets built for gas generators should not accrue to the account of natural gas users who are not gas generators.

4.5 Integrated Resource Planning

- 33.0 The Ontario Power Authority (OPA) has responsibility for Ontario’s long-term supply of electricity. This includes the integration of four activities: power system planning; generation development; conservation; and retail services.
- 34.0 Responsibility for natural gas planning is not as clearly set out, however. At the September 19, 2005 NGEIR stakeholder meeting, it was suggested that perhaps the OEB could / should play a more proactive role.

CME Position

- 35.0 While it is clear that the OPA has a mandate in the electricity area and it would be unfortunate if “the electrical tail wagged the natural gas dog”, CME would be concerned if a call for integrated resource planning is the thin edge of the wedge of even greater bureaucratic central planning.
- 36.0 CME urges the OEB to let the market system work and not get involved in micromanaging this important aspect of the economy.

4.6 Who should pay?

- 37.0 The OEB consultant’s report appears to suggest that natural gas generators should receive rolled-in rates for services from existing facilities and incur incremental rates if additional capacity is required to serve them.

CME Position

- 38.0 CME believes that the full cost of providing service to natural gas generators should be recovered in the cost of electricity.
- 39.0 It is fundamental that the costs created by the operating requirements of gas-fired generators not be transferred to gas users generally. Otherwise, gas users would be subsidizing power users.
- 40.0 Natural gas customers should not subsidize electricity generators or electricity customers, nor should electricity customers subsidize natural gas customers.

4.7 Postage Stamp Rates

- 41.0 Should the OEB move from the principle of “postage stamp” gas transmission and distribution rates within utility franchise areas and embrace distance-based rates?

CME Position

- 42.0 The OEB should retain the principle of “postage stamp” gas transmission and distribution rates.

4.8 Economic impact

43.0 The OEB research and analysis to date contains no reference to the economic impact of adding significant additional natural gas generation in Ontario.

CME Position

44.0 Replacing coal fired electricity generation, primarily with natural gas generation, will result in tighter natural gas supply and higher, more volatile prices.

45.0 While supply and demand will always balance it is essential that the economic and social consequences of higher natural gas and electricity prices be evaluated and understood before irreparable damage is done.

46.0 Ontario must decide whether it wants its manufacturing sector to become dependent upon electricity produced by natural gas fired generation that, in turn, will increasingly face higher gas prices and greater volatility.

47.0 In CME's view, if this were to occur Ontario's manufacturing base would be undermined, resulting in fewer exports, fewer jobs and a lower standard of living generally.

48.0 For natural gas generators higher natural gas prices are a pass-through cost. But for manufacturers and exporters higher natural gas and electricity prices are added costs of doing business, negatively impacting on competitiveness. At some point manufacturers will be forced out of business at least in Ontario.