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ON BEHALF OF
OPTION CONSOMMATEURS

PRESENTED IN THE CASE OF
SOCIÉTÉ EN COMMANDITE GAZ MÉTRO'S APPLICATION
RELATIVE TO THE APPROVAL OF THE SUPPLY PLAN AND THE MODIFICATION
OF THE CONDITIONS OF SERVICE AND TARIFF
AS OF OCTOBER 1ST, 2012

FILE R-3809-2012

PHASE 1

RÉGIE DE L'ÉNERGIE

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1 **1. MANDATE**

2
3 Following the filing by Société en commandite Gaz Métro (SCGM or Gaz Métro) of an
4 application for approval of the Supply Plan and the modification of the Conditions of
5 Service And Tariff, Option consommateurs (OC) retained our services in order to assist
6 OC with its intervention before the Régie, and to produce an analyst report within the
7 context of the case. The present report covers the following hearing subjects:

- 8 1. The general acceptability of the overall Supply Plan in light of OC's interest in
9 balancing security of supply with cost minimization;
- 10 2. The multipoint supply proposal and the strategy for displacement of the supply
11 structure from Empress to Dawn;
- 12 3. The proposed rate modifications relative to interruptions.

13 The subject of the Performance Indicator for the optimization of supply tools will be
14 covered in a subsequent analyst report to be filed in December 2012, in accordance
15 with the calendar set out by the Régie on September 18, 2012 for this subject.

16

17 **2. INTRODUCTION AND CONTEXT**

18

19 As Gaz Métro's application discusses at length, North American natural gas markets are
20 undergoing a revolution, driven largely by the growth of supply from shale gas.¹ Large
21 new reserves of shale gas are being developed in Marcellus and Utica. Infrastructure
22 projects are being implemented to deliver shale gas from the Marcellus to Southern
23 Ontario by 2012. The proposed NEXUS gas transmission system could connect

¹ B-0031 (GM-1, Doc 1), Section 1, pp. 12-26; B-0034 (GM-1, Doc 16), Section 6.4.2, pp. 32-34.

1 growing shale gas supplies from Utica to Southern Ontario as early as 2015.² These
2 infrastructure projects will further enhance the strategic position of Dawn as a major
3 supply hub.

4 At the same time, natural gas production in the Western Canadian Sedimentary Basin is
5 declining, while gas demand in the West is increasing due to the expansion of the Tar
6 Sands and LNG gas projects in British Columbia. In this context, the price differential
7 between Empress and Dawn has decreased significantly in recent years and this
8 differential is now lower than the TCPL transmission rate. Moreover, Gaz Métro
9 concludes that this trend will be maintained in the future and that it is more economical
10 to buy gas directly at Dawn rather than to buy it at AECO and have it transported
11 eastward.³

12 We agree with Gaz Métro that there is a revolution underway in the North American
13 natural gas markets driven largely by the shale gas boom. This revolution has
14 particularly strong effects on gas markets in Quebec, Ontario, and the Northeastern US.
15 And this revolution is impacting Gaz Métro in a number of ways. These changes are
16 ongoing, likely to continue, and may in fact be intensifying and accelerating.

17 The revolution in the natural gas markets is impacting the key elements of Gaz Métro's
18 Supply Plan. In fact, the revolution is affecting each of the specific issues of concern to
19 OC in the current case, including:

- 20 1. the general acceptability of the overall Supply Plan;
- 21 2. the multipoint supply proposal and the strategy for displacement of the supply
22 structure from Empress to Dawn;

² B-0031 (GM-1, Doc 1), p. 20, lines 5-8, discusses the longer-term possibility of the proposed pipeline to deliver Utica shale gas to Ontario, but indicates a 2017 in-service date. A September 4, 2012 announcement of a Memorandum of Understanding between DTE Energy, Enbridge Inc. and Spectra Energy Corp to jointly develop the NEXUS Gas Transmission (NGT) system indicates a projected in-service date as early as 2015. So if anything, the dramatic changes in the continental market, driven by the shale boom, appear to be accelerating. See B-0042 (GM-5, Doc 4), OC IR 8 to SCGM, pp. 13-14.

³ B-0031 (GM-1, Doc 1), p. 25, lines 16-29.

1 3. the proposed rate modifications relative to interruptions.

2

3 **3. GENERAL ACCEPTABILITY OF THE SUPPLY PLAN**

4

5

6 Gaz Métro has asserted that the shale-driven revolution in the North American natural
7 gas markets profoundly affects its Supply Plan, and we agree that this is true. A
8 revolution is underway and Gaz Métro's supply-planning needs to take this into account
9 and respond. Business as usual is not a viable option during a revolution; prudent
10 management requires that Gaz Métro respond to these profound changes in the
11 markets and its operating environment.

12 We have reviewed Gaz Métro's written evidence in the case to date (including
13 particularly the Supply Plan proposal for 2013-2015,⁴ the proposal for Multipoint Supply
14 and the Displacement of the Supply Structure to Dawn,⁵ as well as GM's answers to
15 IRs). Even in a more stable context, the evaluation of a Supply Plan is complex and
16 challenging; but in a situation of unprecedented and accelerating change, the
17 complexity and challenge are considerably amplified. OC's findings and conclusions on
18 the general acceptability of the Supply Plan are therefore somewhat conditional. Given
19 the evidence filed to date and OC's interest in balancing security of supply with cost
20 minimization, the main elements of GM's proposed Supply Plan, and the shifts
21 proposed to respond to the revolution, appear to be generally favourable to consumers.
22 However, the shifts proposed by GM are subject to sizable uncertainties and some
23 risks. These uncertainties are further underlined by ongoing new developments such as
24 the recent announcement that the capacity assumed to have been available from TCPL
25 to bring gas in from Ontario (between Union and GMi-EDA) as of November 2014 will

⁴ B-0031 (GM-1, Doc 1)

⁵ B-0034 (GM-1, Doc 16)

1 not be available until a year later.⁶ It is challenging to submit evidence on a Supply Plan
2 that is currently being updated. There is also considerable uncertainty surrounding the
3 outcome of the NEB case concerning the TCPL Mainline tolls.⁷

4

5 **4. MULTIPOINT SUPPLY PROPOSAL AND STRATEGY FOR DISPLACEMENT OF**
6 **THE SUPPLY STRUCTURE FROM EMPRESS TO DAWN**

7

8 In conformity with Decision D-2011-164, GM presents a proposal to respond to the
9 issue of multipoint supply for direct purchase (*achat direct*) customers.⁸ In the same
10 document, GM presents its proposal with respect to the strategy for the displacement of
11 the supply structure from Empress to Dawn. OC emphasizes that in the current North-
12 American gas context (characterized by rapid and dramatic change), the choice of a
13 long-term gas supply strategy will have important impacts on rates, equity among
14 customer classes and security of supply.

15 4.1. THE MULTIPOINT SUPPLY PROPOSAL

16 OC firmly supports the basic principles that GM takes into consideration in its analysis
17 of the multipoint supply proposal: equity among client groups; feasibility and simplicity of
18 the process; as well as adaptability of an approach to future modifications in the supply
19 structure.⁹ Given the massive shifts underway in the Supply Plan and GM's intention to
20 propose further modifications to the supply structure in the next rate case (related to its
21 displacement to Dawn), as well as the equity concerns raised by GM, we support GM's
22 recommendation not to develop a multipoint service for direct purchase customers.

23

⁶ B-0048 (letter from GM).

⁷ B-0034 (GM-1, Doc 16), Section 3, pp. 7-9; B0040 (GM-5, Doc 3), GM Response to FCEI IR 1.18, pp. 13-14, including B0040 (GM-5, Doc 3), Appendix 1 to Q. 1.18, p. 1 (or p. 24 of PDF document).

⁸ B-0034 (GM-1, Doc 16).

⁹ Ibid, Section 6.1, pp. 16-17.

1 4.2.THE STRATEGY FOR DISPLACEMENT OF THE SUPPLY STRUCTURE
2 FROM EMPRESS TO DAWN

3 As discussed by GM,¹⁰ there is a large increase in the North-American natural gas
4 supply; much of this new supply is from US shale gas proximate to Quebec and
5 adjacent markets (i.e. Marcellus and Utica), while gas supply from the Western
6 Canadian Sedimentary Basin is declining. GM has therefore concluded that there are
7 significant advantages with respect to cost minimization for both the Distributor and
8 consumers, in the displacement of the supply structure from Empress to Dawn. At the
9 same time, GM does not judge that the displacement to Dawn undermines the security
10 of supply.¹¹

11 While there may be some risk in displacing the supply structure to Dawn, OC generally
12 agrees that this shift appears to be beneficial to consumers. GM appears to be
13 demonstrating prudent management and is estimating sizable cost savings as a result
14 of this displacement, which are robust, based on various assumptions.

15 As indicated above in our comments on the overall Supply Plan in Section 3, the shifts
16 proposed by GM are subject to significant uncertainties and some risks. These
17 uncertainties are further underlined by ongoing new developments related to TCPL tolls
18 and the availability of capacity on TCPL. However, GM appears to have considered at
19 least some of these risks.¹² From the information provided to date in the case, it
20 appears that the displacement to Dawn is a prudent response to the current context
21 (including the shale-driven revolution in the natural gas markets, current conditions, as
22 well as opportunities and costs).¹³

23

¹⁰ B-0031 (GM-1, Doc 1), Section 1, pp. 12-26.

¹¹ B-0045 (GM-5, Doc 7), GM Responses to TCPL IRs 16.1 and 16.2, pp. 22-24.

¹² Ibid and footnote 7.

¹³ The current context is characterized by accompanying risks and opportunities, costs and savings. This context is also relevant to the Performance Indicator, which will be dealt with in a separate analyst report and hearing.

1 5. PROPOSED RATE MODIFICATIONS RELATIVE TO INTERRUPTIONS

2 The shale-driven revolution in the North American natural gas markets has resulted in
3 an increased supply of natural gas, as well as significant decreases in the price of
4 natural gas relative to alternative fuels. The increasing competitiveness of natural gas
5 has affected the Gaz Metro's Interruptible customers in several ways.

- 6 1. In general, the use of gas is growing among Gaz Métro's large customers;
- 7 2. There is a significant migration of Interruptible customers towards firm service.
- 8 3. Existing penalties for gas overruns (*retraits interdits*) for Interruptible customers
9 are not sufficiently dissuasive.

10 5.1. GAZ MÉTRO'S PROPOSAL

11 In Exhibit B-0036 (GM-3, Doc 1), GM states that because demand for natural gas has
12 increased in recent years, it is currently facing a system capacity problem in the
13 Saguenay-Lac-Saint-Jean region, and that continuity of service in this region could be at
14 risk on the coldest days of winter. The capacity of the system in the region might not be
15 sufficient to meet the demands of firm customers if the Interruptible customers fail to
16 interrupt. There are two key elements which explain this situation, according to GM: (a)
17 the penalty of gas overruns (*retraits interdits*) for Interruptible customers is no longer
18 sufficiently dissuasive due to significant decreases in the price of natural gas relative to
19 alternative fuels; (b) the terms governing the order of interruptions do not appear to
20 permit interruptions for operational reasons, such as system capacity problems, except
21 in the case of emergency.

22 To address this problem, that GM proposes the following solutions:

- 23 1. GM recommends that the current penalty for a gas overrun (i.e. $50\text{¢}/\text{m}^3$ plus the
24 daily price index at Iroquois) be changed to a new, more dissuasive penalty:
25 $50\text{¢}/\text{m}^3$ plus the higher of the daily price index at Iroquois or the price of no. 6
26 heating oil (as delivered to Montreal).

1 2. In order to ensure that customers will interrupt (and thus avoid a threat to system
2 integrity), GM proposes that the Conditions of Service and Tariff be modified in
3 order to (a) recognize that GM has the right to physically interrupt a customer,
4 who fails to interrupt following a notification of interruption; and (b) specify the
5 possibility of legal consequences for reparation of damages resulting from failure
6 to respect the notification to interrupt.

7 3. In order to permit interruption for operational reasons (particularly related to
8 system capacity problems in certain regions), GM proposes to modify the
9 Conditions of Service and Tariff to specify that the established priority order of
10 interruptions may not be respected by GM in the case of operational problems.

11 According to GM's comments on OC's intervention request,¹⁴ GM indicates that the
12 proposed modifications are motivated "purely for operational imperatives," and further
13 specifies in response to IRs that this implies that it is motivated by the fact that certain
14 portions of its transmission system are reaching maximum capacity.¹⁵

15 In response to IRs from the Régie, GM provides considerably more detailed information
16 about the nature of system capacity problems in the Saguenay-Lac-Jean region. GM
17 has identified some serious system constraints in specific pockets of its service territory,
18 notably in the Saguenay region, but also in the Abitibi. At times of peak demand, there
19 are transmission constraints on gas delivery to these specific load pockets,¹⁶ such that
20 back-up gas cannot be delivered into these load pockets. This additional detail clarifies
21 the operational imperative motivation: for security of supply in specific load pockets, it is
22 essential to ensure that Interruptible customers in these specific load pockets respect
23 their obligation to be interrupted.¹⁷

¹⁴ B-0026, Commentaires de Gaz Métro à l'égard des demandes d'intervention, p. 5.

¹⁵ B-0042 (GM-5, Doc 4), p. 17, GM's Response to OC IR 9.5.1.

¹⁶ The expression "load pocket" is more commonly used in relation to electricity systems. However, load pockets can also be used in relation to gas systems. A load pocket is an area where load may exceed the maximum transmission capacity available to deliver resources into the area.

¹⁷ B-0037 (GM-5, Doc 1), GM Response to Régie IR 32.1, pp. 62-64.

1 GM also clarifies, in response to the Régie IRs, that there are portions of the
2 transmission system, notably in the Saguenay and the Abitibi, that are heavily utilized
3 and will require upgrades to increase the capacity of the system.¹⁸ Actions will have to
4 be taken to solve this capacity problem, which will likely intensify if demand continues to
5 increase.¹⁹ GM is currently developing a solution for the capacity problem in the
6 Saguenay and plans to present this solution for approval in the coming months.²⁰
7 Because the service areas that require upgrades are remote, the investments to
8 increase system capacity will be significant.²¹

9 5.2. OC'S COMMENTS ON GAZ MÉTRO'S PROPOSAL

10 GM clearly has a problem in that demand for gas is approaching capability to deliver
11 gas in some parts of its service territory. This problem is being driven by increased gas
12 usage among large customers, and GM indicates that substantial investments will be
13 required to resolve the problem. GM has further indicated that solutions to this problem
14 will be presented at the Régie in the coming months. Moreover, a more complete review
15 of the Interruptible rates will also be presented in a subsequent case. In D-2012-104,
16 the Régie has indicated that the current application should only cover ratemaking for
17 gas overruns and that this is not the appropriate forum to review the Interruptible rate:

18 *[38] Par ailleurs, en ce qui a trait au tarif interruptible, la Régie souhaite traiter*
19 *uniquement de la tarification des retraits interdits en cas d'interruption. Elle juge*
20 *que le présent dossier n'est pas le forum approprié pour remettre en question le*
21 *tarif interruptible. Les intervenants qui veulent traiter d'une révision plus en*
22 *profondeur de ce tarif pourront faire leurs représentations dans un prochain*
23 *dossier, lorsque Gaz Métro aura présenté sa vision tarifaire, tel que demandé*
24 *dans la décision D-2011-182.[5]²²*

25 [footnote 5 in original] : Dossier R-3752-2011 Phase 2, page 83.

¹⁸ Ibid, p. 62

¹⁹ B-0037 (GM-5, Doc 1), GM Response to Régie IR 31.3, p. 61.

²⁰ B-0037 (GM-5, Doc 1), GM Response to Régie IR 31.4, p. 61.

²¹ B-0037 (GM-5, Doc 1), GM Response to Régie IR 32.1, p. 62.

²² D-2012-104, p. 12, para 38.

1 Therefore GM's current proposal for rate modifications relative to interruptions must be
2 evaluated within this broader context (i.e. capacity constraints and upcoming
3 Interruptible rate review); however OC's comments will be restricted to rate
4 modifications/modifications of Conditions of Service concerning gas overruns as per the
5 Régie's direction. In terms of GM's proposal for the rate modifications relative to
6 interruptions, we have a number of comments on the strengths and weaknesses of the
7 proposal, as well as several recommendations. While we share GM's concerns
8 regarding security of supply, we believe that Interruptible ratemaking regarding gas
9 overruns should also address the economic impacts of free-ridership (which affect
10 customer rates and equity among customer classes).

11 5.2.1. Strengths

12 OC is highly concerned with system integrity and it would appear that the penalty
13 modifications, as proposed by GM (and summarized above in Section 5.1, item 1), are a
14 step in the right direction in addressing operational impacts of gas overruns, with
15 respect to the Saguenay and Abitibi regions. Based on GM's evidence, there appears to
16 be a real transmission capacity problem in these specific load pockets and it is
17 important that this problem be addressed.

18 Regarding the modifications concerning the ordering of interruptions (outlined above in
19 Section 5.1, item 3), OC agrees that the Conditions of Service should be modified in
20 order to give GM the ability to change the order of interruption for operational reasons.

21 Regarding the modifications proposed in the Conditions of Service to recognize GM's
22 right to physically interrupt a customer and to specify the possibility of legal
23 consequences for damage reparations resulting from the non-respect of the notification
24 to interrupt (outlined above in Section 5.1, item 2), OC has no strong objections to these
25 provisions, but remains unconvinced that they will have sufficient dissuasive effect,
26 particularly on free-riding Interruptible customers. These provisions will be discussed
27 below in Section 5.2.2 Areas for Improvement.

1 GM's proposal for the modification of Interruptible rates is an improvement on the status
2 quo; however we believe that the proposal could be broadened and further improved, as
3 will be discussed in the following sections.

4 5.2.2. Areas for Improvement

5 Interruptibles are a useful tool for all ratepayers with respect to system integrity. If rates
6 are properly designed, Interruptibles can also reduce costs to serve load, increase
7 system utilization, and help to hold down rates overall. In considering the design of rates
8 and service conditions to address gas overruns, OC shares GM's concerns regarding
9 security of supply; however, we believe these rate modifications for Interruptibles should
10 also address the economic impacts of free-ridership (which affect customer rates and
11 equity among customer classes).

12 GM's current proposal fails to adequately address free-ridership among Interruptible
13 customers, and this is its main weakness. Another weakness in GM's proposal is that
14 the penalty is proposed is insufficiently dissuasive for no. 2 fuel customers. Finally, OC
15 questions whether the threat of potential physical interruption and legal action, resulting
16 from failure to interrupt, is sufficiently dissuasive to curtail gas overruns, particularly in
17 the absence of additional dissuasive tools.

18 *Failure to Adequately Address Economic Impacts of Free-Ridership*

19 Free-ridership of Interruptible customers has negative impacts on the non-free-riding
20 Interruptibles and on the rest of Gaz Métro's customers. If the penalty for gas overruns
21 is not sufficiently dissuasive, customers may fail to interrupt. This can have operational
22 impacts and affect security of supply. However, poor rate design for gas overruns can
23 also encourage free-ridership (which affects customer rates and equity among customer
24 classes). In exchange for agreeing to be interrupted subject to the Conditions of Service
25 and Tariff, customers on Interruptible rates receive a discount relative to customers on
26 firm rates. Unless properly designed and implemented, Interruptible rates can provide
27 discounts to customers that are not offset by benefits in terms of Gaz Métro's actual

1 capability to interrupt. Undue discounts provided to Interruptible customers can result in
2 higher rates for other customers.

3 In response to an IR from OC, regarding the economic impacts of Interruptible
4 customers who fail to interrupt (impacts notably in terms of customer rates, equity and
5 free-ridership vs. the operational impacts), GM responds that the economic aspect of
6 gas overruns is not an issue:

7 *La pénalité actuelle (indice Iroquois) couvre les coûts additionnels*
8 *potentiellement encourus par Gaz Métro aux différents services autres que la*
9 *distribution, la pénalité de 50 ¢/m³ couvre les frais pour le service de distribution.*
10 *L'aspect économique associé aux retraits interdits n'est donc pas un enjeu.²³*

11 In the above answer, GM is failing to consider the hidden costs of free-ridership among
12 customers, who rarely get interrupted (e.g. smaller Interruptibles who are much further
13 down in the usual ordering of those who get interrupted and/or Interruptible customers,
14 using no. 2 heating oil) and who plan on responding to a notification to interrupt through
15 gas overruns. Given the decline in natural gas prices with respect to fuel alternatives,
16 some of these free-riding customers may not even be storing sufficient alternative fuel
17 sources to be capable of curtailing their gas usage.

18 GM's failure to address free-ridership is also demonstrated by the fact that GM does not
19 have any kind of explicit requirement that customers receiving service under an
20 Interruptible rate have a demonstrable ability to curtail their consumption in the case of
21 an interruption. In an IR, the Régie inquires about assurances by GM that Interruptible
22 customers have recourse to alternative energy sources and that their heating oil
23 equipment is functional. GM bluntly replies that it has no assurance that customers have
24 the necessary installations to curtail their consumption. Furthermore, GM adds that the
25 maintenance of customers' equipment is not part of its role as a distributor of natural
26 gas:

²³ B-0042 (GM-5, Doc 4), p. 18, GM's Response to OC IR 9.5.3.

1 *La Gaz Métro n'a pas l'assurance que les clients ont des équipements ni s'ils*
2 *sont fonctionnels. D'ailleurs, Gaz Métro considère qu'elle n'a pas cette obligation*
3 *dans la mesure où les règles du tarif interruptible sont claires : les clients*
4 *peuvent être interrompus selon les paramètres du tarif.*

5 *Ceci étant dit, selon les connaissances des installations de nos clients, ceux-ci*
6 *ont généralement des équipements pouvant utiliser à une autre source d'énergie.*

7 *D'autre part, certains clients interruptibles ne consomment qu'en été (clients*
8 *saisonniers). Aucun équipement de relève à une autre source n'est donc requis.*

9 *Enfin, certains clients n'ont pas d'équipement de relève et ont la capacité*
10 *de s'interrompre lorsque demandé. Ces clients peuvent moduler leur production*
11 *pour tenir compte de ces périodes d'interruption.*

12 *En terminant, Gaz Métro étant un distributeur de gaz naturel, l'entretien des*
13 *appareils appartenant aux clients ne fait pas partie de son rôle. Ainsi, il ne*
14 *semble pas pertinent de prévoir l'instauration de modalités de vérifications*
15 *d'installations tel qu'évoqué par la Régie.²⁴*

16 In contrast, Enbridge Gas Distribution (EGD) in Ontario, the largest natural gas
17 distribution utility in Canada, “reserves the right to satisfy itself that the customer can
18 accommodate the interruption of gas through either a shutdown of operations or a
19 demonstrated ability and readiness to switch to an alternative fuel source.”²⁵ EGD’s
20 Interruptible rate provisions concerning gas overruns, as well as its multi-stakeholder
21 System Reliability Settlement,²⁶ will be discussed in Section 5.3 Recommendations.

22 *Penalty for No. 2 Heating Oil Customers*

23 Another weakness in GM’s proposal is that the penalty proposed is insufficiently
24 dissuasive for no. 2 heating oil customers. In the case of no. 6 heating oil customers,
25 the penalty for a gas overrun (\$19/GJ in the example in GM’s evidence prior to the

²⁴ B-0037 (GM-5, Doc 1), Response to Régie IR 33.2, pp. 69-70.

²⁵ EB-2011-0354, Exhibit H2, Tab 6, Schedule 1, Rate Handbook, Enbridge Gas Distribution, Handbook of Rates and Distribution Services, Applicability Sections for Interruptible Service Rates 145 and 170 respectively, Handbook 27 and 29. See also relevant excerpts from the same EGD Rate Handbook in Appendix 1.

²⁶ EB-2010-0231, Decision and Order in the Matter of Application by Enbridge Gas Distribution Inc. for an order on orders approving a system reliability Settlement Agreement.

<http://www.rds.ontarioenergyboard.ca/webdrawer/webdrawer.dll/webdrawer/rec/211550/view/>

1 proposed penalty modification) is only slightly higher than the price of the alternative no.
2 6 oil (\$15-\$18/GJ in the example). As such, Gaz Métro concludes that it is possible and
3 even probable that customers would prefer to pay the penalty given the transaction
4 costs of interruption.²⁷

5 After the modification of the penalty, customers would have paid \$28-\$31/GJ for gas
6 overruns in winter 2011-2012.²⁸ Clearly, there is a significant differential (i.e., the
7 penalty is higher than the cost of alternative fuel) for no. 6 heating oil customers under
8 the new penalty.

9 According to GM, the proposed modification of the penalty for failing to interrupt would
10 be “slightly dissuasive” for users of no. 2 heating oil.²⁹ However, the penalty for a gas
11 overrun (\$28-31/GJ in the example with the proposed modification) is only slightly
12 higher than the price of the alternative fuel no. 2 oil (\$26.43-\$28.35/GJ in GM’s
13 example).³⁰ By GM’s own logic pertaining to no. 6 oil customers (i.e. that customers will
14 fail to interrupt unless the penalty a gas overrun substantially exceeds the costs of
15 switching to the alternative fuel), it is likely that no. 2 oil customers would prefer to pay
16 the new penalty given the transaction costs of interruption.

17 When asked to confirm this logic, GM mentions that consumers have an important
18 advantage to using make-up gas service to avoid an interruption (GAI) or an emergency
19 service premium (*dépannage*). GM reiterates that the proposed penalty is slightly
20 dissuasive for no. 2 oil customers; and that customers must also take into account that
21 they can be subject to legal action for failure to respect the notification to interrupt.³¹ GM
22 provides a similar answer to a Régie IR, further stating that no. 2 and no. 6 oil

²⁷ B-0036 (GM-3, Doc 1), p. 4, line 26 to p. 5, line 7.

²⁸ *Ibid*, p. 6, lines 10-13.

²⁹ *Ibid*, p. 6, lines 14 and 15

³⁰ *Ibid*, p. 5, lines 11-13.

³¹ B-0042 (GM-5, Doc 4), Response to OC IR 9.3, pp. 16 and 17. In Response 9.4 on p. 17, GM also rejected consideration of a separate and higher penalty for no. 2 oil customers, stating that a separate penalty would be burdensome from an administrative perspective and that the current situation for usage of gas overruns does not require a such a penalty.

1 Interruptible customers do not currently use gas overrun penalties as a distribution
2 service.³²

3 These answers fail to convince us that the penalty is sufficiently dissuasive for no. 2
4 heating oil. The logic that GM applies to make a case that the no. 6 heating oil
5 customers (that customers will fail to interrupt unless the penalty for a gas overrun
6 substantially exceeds the costs of switching to the alternative fuel) should also apply to
7 no. 2 heating oil customers. Given the transmission system constraints in the
8 Saguenay, make-up gas service or emergency service may not be options during
9 periods of interruption.³³ So for no. 2 oil customers in a load pocket (such as the
10 Saguenay) where make-up gas or emergency service is not an option, gas overruns
11 may be a least-cost or close to a least-cost option.

12 Given that the amount of Interruptible load for no. 2 heating oil customers is reported to
13 be small compared to no. 6 heating oil customers,³⁴ GM must address the potential
14 problem of gas overruns for no. 6 customers in the load pockets for reasons of system
15 integrity. However, we believe that by broadening the terms of penalties for gas
16 overruns, it is also possible to address the potential problem of gas overruns for no. 2
17 customers.³⁵ As it stands, GM's proposed penalty may fail to deter free-ridership among
18 no. 2 heating oil customers. Moreover, the threat of legal action also seems
19 insufficiently dissuasive to prevent gas overruns as will be discussed below.

20 *Physical Interruptions and Legal Actions: Provisions that are not Adequately Dissuasive*

21 Finally, OC questions whether the threat of physical interruption and legal action
22 constitute sufficiently dissuasive modifications to the conditions of service, particularly in
23 the absence of more dissuasive tools. Regarding the modifications proposed in the
24 Conditions of Service to recognize GM's right to physically interrupt a customer, who

³² B-0037 (GM-5, Doc 1), Response to Régie IR 34.2, p. 71.

³³ Ibid, Response to Régie IR 31.1, pp. 59-60.

³⁴ Ibid, Response to Régie IR 32.1, p. 63 and Response to Régie IR 32.3, p. 68.

³⁵ This will be further discussed in Section 5.3 Recommendations.

1 fails to interrupt following a notification of interruption (outlined above in Section 5.1,
2 item 2), OC has no significant objections to this provision; but remains unconvinced that
3 this wording will have significant dissuasive effect. As indicated in response to a Régie
4 IR, physical interruption is difficult, slow and expensive. Moreover, this kind of
5 interruption in remote load pockets could be further limited by availability of technicians,
6 who must travel to the site itself for a major intervention. In the case of combined
7 service offerings, it is impossible to interrupt only the interruptible volumes.³⁶

8 Similarly, regarding the modifications proposed in the Conditions of Service to specify
9 the possibility of legal consequences for reparation of damages resulting from failure to
10 respect the notification to interrupt (outlined above in Section 5.1, item 2), OC has no
11 strong objections; but remains unconvinced that this wording will have significant
12 dissuasive effect. Like physical interruptions, legal action is also difficult, slow and
13 expensive. Beyond the transaction costs to the Distributor, OC questions whether GM
14 would really be highly motivated to take its Interruptible customers to court for damages,
15 given that these would typically be large and important gas users.

16 Interruptible customers are typically highly sophisticated operations and will likely
17 recognize that these provisions could be somewhat empty threats, particularly in the
18 absence of more dissuasive provisions.

19 5.3. RECOMMENDATIONS

20 *Broader Set of Tools Needed*

21 Despite the fact that GM's proposal has some strengths and represents an
22 improvement over the status quo, there are limits to GM's approach (penalties and
23 threats of legal action and physical interruption). OC strongly recommends using a
24 broader set of tools (such as those implemented for Interruptible rates in Ontario). The
25 goal is to discourage gas overruns and free-ridership, but not to discourage

³⁶ Ibid, GM Response to Régie IR 36.1, pp. 73-74.

1 Interruptibles per se (and thus forego the benefits of well-designed Interruptible rates,
2 which can reduce costs to serve load, increase system utilization, and help to hold down
3 rates overall). The use of only a few instruments as proposed by GM (i.e., penalties and
4 threats of legal action and physical interruption) may lead to suboptimal outcomes. A
5 broader set of tools can deter abuse but not legitimate participation in Interruptible rates.

6 Furthermore, a broader set of tools can be used not only to simply deal with the
7 immediate problem of system integrity in the Saguenay and Abitibi, but also to limit the
8 economic impacts of free-ridership through design of rates and service conditions to
9 address gas overruns.

10 *Guidelines for a Broader Set of Tools*

11 The penalties for gas overruns should be more severe and varied in order to discourage
12 Interruptible free-ridership, yet these penalties should also be easier, more practical and
13 less expensive to implement than the threat of legal action or physical interruption.

14 In addition to the penalty for gas overruns proposed by GM,³⁷ OC suggests that a
15 broader set of tools could contain the following provisions concerning ratemaking for
16 gas overruns:

- 17 1. Failure to interrupt may result in forfeiting the right to be served under the
18 Interruptible rate.
- 19 2. Failure to interrupt may result in in forfeiting rate reductions with respect to the
20 winter season.
- 21 3. Penalties should be particularly punitive and significant for second-time violators
22 and include higher charges for the current contract term, as well as retroactive
23 charges.

³⁷ 50¢/m³ plus the higher of the daily price index at Iroquois or the price of no. 6 heating oil.

1 4. Eligibility for the Interruptible Rate should stipulate that prospective customers be
2 able to demonstrate the ability to curtail their consumption in the case of an
3 interruption.

4 Prospective Interruptible free-riders will find the above provisions more dissuasive than
5 GM's current proposal. Moreover, if GM reserves the right to verify that customers can
6 accommodate an interruption, this could help to screen out free-riders, who are not
7 even storing sufficient alternative fuel sources to be capable of curtailing usage.

8 Similarly, if as GM maintains, it is too burdensome to implement a separate and higher
9 penalty for no. 2 oil customers, the above recommendations constitute more effective
10 deterrents of free-ridership (and gas overruns in load pockets) among no. 2 customers
11 than GM's current proposal.

12

13 *The Case of Enbridge Gas Distribution in Ontario*

14 The above suggestions were informed by the Applicability provisions and Unauthorized
15 Overrun Gas Rate provisions in EGD's Handbook of Rates and Distribution Services for
16 Interruptible Service Rates 145 and 170, respectively. The relevant excerpts for each of
17 these Rates are found in Appendix 1. The reference and web address of the complete
18 Exhibit are found in footnote 25.

19 In particular, the relevant Applicability provision for both Rate 145 and 170 is as follows:

20 The Company reserves the right to satisfy itself that the customer can
21 accommodate the interruption of gas through either a shutdown of operations or
22 a demonstrated ability and readiness to switch to an alternative fuel source.³⁸

23 The relevant Unauthorized Overrun Gas Rate provisions for both Rate 145 and 170 are
24 as follows:

³⁸ See footnote 25.

1 Any material instance of failure to curtail in any contract year may result in the
2 Applicant forfeiting the right to be served under this rate schedule.

3 In such case, service hereunder would cease, notwithstanding any Service
4 Contract between the Company and the Applicant. Gas supply and/or
5 transportation service would continue to be available to the Applicant pursuant to
6 the provisions of the Company's Rate 6 until a Service Contract pursuant to
7 another applicable Rate Schedule was executed.

8 Any Applicant taking a material volume of Unauthorized Supply Overrun Gas,
9 during a period of ordered curtailment, may forfeit its curtailment credits for the
10 respective winter season, December through March inclusive.

11 On the second and subsequent occasion in a contract year when the Applicant
12 takes Unauthorized Demand Overrun Gas, a new Contract Demand will be
13 established and shall be charged equal to 120% of the applicable monthly charge
14 for twelve months of the current contract term, including retroactively based on
15 the terms of the Service Contract.³⁹

16 The above provisions were developed during multi-stakeholder System Reliability
17 Settlement.⁴⁰ OC is not suggesting that GM implement provisions identical to those of
18 EGD, but rather that the Régie review the relevant EGD provisions and tailor a broader
19 set of tools to address ratemaking for gas overruns. We recommend that the Guidelines
20 for Broader Set of Tools as outlined in points 1 to 4 of the previous section of the same
21 name could be used as a model to develop provisions tailored to GM's customers.

³⁹ EB-2011-0354, Exhibit H2, Tab 6, Schedule 1, Rate Handbook, Enbridge Gas Distribution, Handbook of Rates and Distribution Services, Unauthorized Overrun Gas Rate Sections for Interruptible Service Rates 145 and 170 respectively, Handbook 28 and 30.

See also relevant excerpts from the same EGD Rate Handbook in Appendix 1.

⁴⁰ See footnote 26. The Régie and GM may also be interested in reviewing how this multi-stakeholder settlement was reached given that the subject matter is relevant to some of the system reliability issues in Quebec concerning gas overruns, as well as upcoming the Interruptible Rate review.

APPENDIX 1

RATE HANDBOOK

Filed: 2012-01-31
EB-2011-0354
Exhibit H2
Tab 6
Schedule 1
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ENBRIDGE GAS DISTRIBUTION

HANDBOOK OF RATES AND DISTRIBUTION SERVICES

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Replaces: 2012-01-01



APPLICABILITY:

To any Applicant who enters into a Service Contract with the Company to use the Company's natural gas distribution network for the transportation of a specified maximum daily volume of natural gas to a single terminal location ("Terminal Location") which can accommodate the total interruption of gas service as ordered by the Company exercising its sole discretion. The Company reserves the right to satisfy itself that the customer can accommodate the interruption of gas through either a shutdown of operations or a demonstrated ability and readiness to switch to an alternative fuel source. Any Applicant for service under this rate schedule must agree to transport a minimum annual volume of 340,000 cubic metres.

CHARACTER OF SERVICE:

In addition to events as specified in the Service Contract including force majeure, service shall be subject to curtailment or discontinuance upon the Company issuing a notice not less than 16 hours prior to the time at which such curtailment or discontinuance is to commence. An Applicant may, by contract, agree to accept a shorter notice period.

RATE:

Rates per cubic metre assume an energy content of 37.69 MJ/m³.

	Billing Month January to December
Monthly Customer Charge	\$123.34
Delivery Charge	
Per cubic metre of Firm Contract Demand	8.2300 ¢/m ³
For the first 14,000 m ³ per month	2.9838 ¢/m ³
For the next 28,000 m ³ per month	1.6248 ¢/m ³
For all over 42,000 m ³ per month	1.0658 ¢/m ³
Gas Supply Load Balancing Charge	0.1701 ¢/m³
Transportation Charge per cubic metre	5.6220 ¢/m³
System Sales Gas Supply Charge per cubic metre (If applicable)	13.7496 ¢/m³

The rates quoted above shall be subject to the Gas Cost Adjustment contained in Rider "C" and the Revenue Adjustment Rider contained in Rider "E". In addition, meter readings will be adjusted by the Atmospheric Pressure Factor relevant to the customer's location as shown in Rider "F". The Gas Supply Charge is applicable if the Applicant is not providing its own supply of natural gas for transportation.

DIRECT PURCHASE ARRANGEMENTS:

Rider "A" or Rider "B" shall be applicable to Applicants who enter into Direct Purchase Arrangements under this Rate Schedule.

CURTAILMENT CREDIT:

Rate for 16 hours of notice per cubic metre of Mean Daily Volume from December to March \$ **0.50 /m³**

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In addition, if the Applicant is supplying its own gas requirements, the gas delivered by the Applicant during the period of curtailment shall be purchased by the Company for the Company's use. The purchase price for such gas will be equal to the price that is reported for the month, in the first issue of the Natural Gas *Market Report* published by Canadian Enerdata Ltd. during the month, as the "current" "Avg." (i.e., average) "Alberta One-Month Firm Spot Price" for "AECO 'C' and Nova Inventory Transfer" in the table entitled "Domestic spot gas prices", adjusted for AECO to Empress transportation tolls and compressor fuel costs.

For the areas specified in Appendix A to this Rate Schedule, the Company's gas distribution network does not have sufficient physical capacity under current operating conditions to accommodate the provision of firm service to existing interruptible locations.

UNAUTHORIZED OVERRUN GAS RATE:

When the Applicant takes Unauthorized Supply Overrun Gas, the Applicant shall purchase such gas at a rate of 150% of the highest price on each day on which an overrun occurred for the calendar month as published in the Gas Daily for the Niagara and Iroquois export points for the CDA and EDA respectively.

Any material instance of failure to curtail in any contract year may result in the Applicant forfeiting the right to be served under this rate schedule.

In such case, service hereunder would cease, notwithstanding any Service Contract between the Company and the Applicant. Gas supply and/or transportation service would continue to be available to the Applicant pursuant to the provisions of the Company's Rate 6 until a Service Contract pursuant to another applicable Rate Schedule was executed.

Any Applicant taking a material volume of Unauthorized Supply Overrun Gas, during a period of ordered curtailment, may forfeit its curtailment credits for the respective winter season, December through March inclusive.

On the second and subsequent occasion in a contract year when the Applicant takes Unauthorized Demand Overrun Gas, a new Contract Demand will be established and shall be charged equal to 120% of the applicable monthly charge for twelve months of the current contract term, including retroactively based on the terms of the Service Contract.

MINIMUM BILL:

Per cubic metre of Annual Volume Deficiency
(See Terms and Conditions of Service):

8.7347 ¢/m³

TERMS AND CONDITIONS OF SERVICE:

The provisions of PARTS III and IV of the Company's **HANDBOOK OF RATES AND DISTRIBUTION SERVICES** apply, as contemplated therein, to service under this Rate Schedule.

EFFECTIVE DATE:

To apply to bills rendered for gas consumed by customers on and after January 1, 2013 under Sales Service and Transportation Service. This rate schedule is effective January 1, 2013 and replaces the identically numbered rate schedule that specifies implementation date, January 1, 2012 and that indicates as the Board Order, EB-2011-0277, effective January 1, 2012.

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In addition, if the Applicant is supplying its own gas requirements, the gas delivered by the Applicant during the period of curtailment shall be purchased by the Company for the Company's use. The purchase price for such gas will be equal to the price that is reported for the month, in the first issue of the Natural Gas *Market Report* published by Canadian Enerdata Ltd. during the month, as the "current" "Avg." (i.e., average) "Alberta One-Month Firm Spot Price" for "AECO 'C' and Nova Inventory Transfer" in the table entitled "Domestic spot gas prices", adjusted for AECO to Empress transportation tolls and compressor fuel costs.

For the areas specified in Appendix A to this Rate Schedule, the Company's gas distribution network does not have sufficient physical capacity under current operating conditions to accommodate the provision of firm service to existing interruptible locations.

UNAUTHORIZED OVERRUN GAS RATE:

When the Applicant takes Unauthorized Supply Overrun Gas, the Applicant shall purchase such gas at a rate of 150% of the highest price on each day on which an overrun occurred for the calendar month as published in the Gas Daily for the Niagara and Iroquois export points for the CDA and EDA respectively.

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On the second and subsequent occasion in a contract year when the Applicant takes Unauthorized Demand Overrun Gas, a new Contract Demand will be established and shall be charged equal to 120% of the applicable monthly charge for twelve months of the current contract term, including retroactively based on the terms of the Service Contract.

MINIMUM BILL:

Per cubic metre of Annual Volume Deficiency
(See Terms and Conditions of Service):

6.2266 ¢/m³

TERMS AND CONDITIONS OF SERVICE:

The provisions of PARTS III and IV of the Company's **HANDBOOK OF RATES AND DISTRIBUTION SERVICES** apply, as contemplated therein, to service under this Rate Schedule.

EFFECTIVE DATE:

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