

Régie's Preliminary Understanding of Impact of Settlement and Energy East on Québec's Gas Markets

The Régie has opted to use the Gaz Métro's EDA market in 2018 to test the impact of the proposed Energy East project. Estimated demand in Gaz Métro EDA for 2018: 255 PJ (source: R-3879-2014).

Base case: Net cost savings for Gaz Métro EDA under settlement - \$63 million in 2018

- 1- Wood –Mackenzie states at page 27 of its evidence that:

'Access to eastern Canadian receipt points using the Settlement tolls will save natural gas consumers ... an average of \$0.66/Dth per day in overall landed cost based on a 100% load factor.'

- 2- For Gaz Métro EDA (using Wood-Mackenzie AECO and Dawn gas price forecast for 2018 – p28)

Overall landed cost – Gaz Métro EDA (\$/GJ/day)

	Empress	Dawn	Variance
With compliance tolls	\$5.50	\$4.69	\$0.81
With settlement tolls	\$5.67	\$5.00	\$0.67

However:

- Gaz Métro EDA already served by: 75% AECO / 25% Dawn: blended landed cost w/ compliance tolls: \$5.40
- 2018 Portfolio under Settlement: 12% AECO / 88% Dawn: blended landed cost w/ settlement tolls: \$5.08

Therefore settlement results in \$0.32 per GJ per day reduction in Gaz Métro EDA landed cost of gas or approximately \$80 million annual savings

Settlement also increases Storage Transportation Service (STS) by 152% i.e. \$17 million increase in annual cost.

So net cost savings for Gaz Métro EDA under settlement estimated to be **\$63 million** in 2018.

Régie's Preliminary Understanding of Impact of Settlement and Energy East on Québec's Gas Markets

Case 1: Impact of Proposed Energy East Project

The TransCanada proposal

- Transfer Shortcut line to Energy East for \$0.5 billion thereby reducing Triangle capacity by 1 200 MMcfd
- Construct new EMP facilities along Montreal Line portion of Triangle to restore 600 MMcfd of Triangle capacity at estimated cost of \$1.1 billion.

Impact on Gaz Métro EDA of TransCanada proposal

- Gaz Métro EDA FT services and STS represent one third of 2018 demand served by Triangle (source: Appendix B Settlement agreement).
- Cost responsibility likely greater because of distance factor.
- Reasonable to expect \$90 million increase in annual cost of service in EOT as a result of a \$0.6 billion net addition to rate base.
- Gaz Métro EDA share of increase would be \$30 million.

Gaz Métro EDA net savings from Settlement: \$63 million

Less impact of TransCanada's Energy East proposal: \$30 million

Net benefit of settlement & Energy East per TCPL proposal: \$33 million (\$0.13/GJ/day)

Régie's Preliminary Understanding of Impact of Settlement and Energy East on Québec's Gas Markets

Case 2: Impact of Energy East project without Shortcut line conversion

- Exports at Iroquois exceeded 1 200 TJ/d on January 28, 2014
- Winter of 2013/14: 250 TJ/d of annual short term FTNR contracted to Iroquois export point
- FTNR in addition to U.S. LDCs Dawn to Iroquois long term FTSH of approx. 600 TJ/d
- Revenues from 250 TJ/d FTNR using North Bay Junction to Iroquois settlement toll approx. \$43 million
- Wood-Mackenzie states that max call of U.S. market on Iroquois to be reduced to total of 0.75 Bcf/d after Constitution Pipeline goes into service. This would lead to 0.45 Bcf/d of excess capacity on the Triangle.
Value of 450 TJ/d excess capacity used to provide short term services at Iroquois therefore estimated to be \$77 million (\$43 million x 450/250).
- Gaz Métro EDA would bear one third of the cost of this 0.45 Bcf/d excess capacity i.e. \$26 million absent market growth

Gaz Métro EDA net savings from Settlement: \$63 million

Less impact of TransCanada's Energy East proposal: \$26 million

Net benefit of settlement & Energy East without Shortcut conversion: \$37 million (\$0.15/GJ/day)

Other impacts:

- Excess capacity cost could increase should U.S. LDCs eventually reduce their Dawn to Iroquois FTSH
- Finally, U.S. market could significantly impact gas prices of some Gaz Métro EDA supplies on cold winter days when they call on Iroquois gas supplies.