Québec Natural Gas Market Review

Shahrzad Rahbar, PhD
President

October 8, 2014

Overview

- Context
- Transition process
- Energy East

Industrial Gas Users Association

- Founded 40 years ago as a coalition of large industrial gas users
- Membership from mining, steel, aluminum, petrochemicals, pulp and paper and manufacturing sectors
  - Over 20,000 direct employment in Québec
  - 9000 suppliers and 20,000 indirect jobs in Québec
  - Annual contribution to the Québec economy in excess of $7.5 billion
  - 740,000 jobs worldwide
- Consumption exceeds 100 PJ per year
- Members are in cyclic commodity business and compete internationally
- Energy costs factor in international competitiveness

The Changing Energy Landscape

- Technology advancement enabled shale gas and tight oil
  - Canada's single customer has found its own supply of oil and gas
  - QC is in proximity of shale gas bubble
- Demand for our oil comes from the developing economies not the US
- Shale gas supply has turned the continental natural gas market on its head
  - Within five years NA has gone from being gas deficient to having excess
  - Vast supplies of shale gas
    - Michigan Pennsylvania & Ohio reserves much larger than WCSB
    - BC shale targeted for LNG export markets
    - WCSB supply targeted at Alberta own use
- Changing trade patterns for oil and gas

Infrastructure Needs to Catch-up

- Pipeline network is optimized for yesterday's supply picture
  - Two sides of the coin: Stranded Assets and Pipeline Bottleneck
- Policy & regulations are optimized for stable market conditions
  - Pace of change is much faster than before
  - Scale of change transcends jurisdictional boundaries
- Getting the transition right attracts jobs & grows the economy
  - Reliable access to cost competitive energy attracts industrial development
  - Proximity to Marcellus and Utica should attract industrial investment to QC
- Mismanaging the transition is a costly lost opportunity
- New flow configuration will shape trade & investment patterns for several decades

Unduly Turbulent Transition

- Pipeline majors fought and continue to fight vigorously
  - Flurry of regulatory activity (NEB, OEB and the Régie)
  - Threats to security of supply
- Settlement Agreement aims at removing bottlenecks
  - NEB approval pending
  - Construction projects approved by the OEB
- Energy East aims at addressing the stranded asset issue
  - Continued conflict among pipeline majors
  - Ontario and Québec Consultations underway
- Painful, costly and unsettling to markets

IGUA Perspective on the Transition

- Industrials need access to reliable and competitively priced energy to survive, create jobs and grow the economy
- We recognize that changing the architecture of the gas infrastructure is non-trivial and entails cost
- We expect the transition to benefit the market not be detrimental to it
  - Supply diversity and more competitive landed price of gas should grow the provincial economy and fuel industrial revival
  - Security of supply should not be a threat nor should it drive the landed price of gas in the province

Transition Process Anomalies

- No focus on capitalizing on the proximity to new shale supply for economic development
  - Economic revival witnessed in Michigan, Ohio and Pennsylvania sadly lacking in Québec and Ontario
  - Granular level: we underestimate future demand
- Managing a continental/regional energy shift through a jurisdictional regulatory lens is restrictive
  - Piecemeal and inefficient regulatory proceedings
  - Oblivious to the impact on secondary markets
  - Granular level: Major problem for Québec industrials (half the gas volume)
    - Rely heavily on the secondary market
    - Will be exposed to New England delivered gas prices because the marketers who have firmed up capacity price services for the hungry US North East market
- Unfortunate balance: Markets are deprived of the opportunities but exposed to the threats

IGUA and Energy East

- Enthusiastic about the concept of the project
  - Leverages Canadian energy resources to strengthen the industrial base in Canada
  - Brings new life to the petrochemical industry
  - Repurposes underutilized gas assets
- Concerned about the specifics
  - No issue with the transfer upstream of the North Bay shortcut
  - Issue with the capacity and cost implications of repurposing the North Bay short cut
  - Capacity
  - Cost

Capacity Short Fall is a Concern

- TransCanada's proposal amounts to a 20% net reduction in capacity available in the Eastern Ontario Triangle
  - Future demand is solely based on FT contracts while we know that the existing capacity is fully utilized
  - The level of constraint on the secondary market is unclear
- The almost 600 TJ/day difference between the LDC and TransCanada demand projections is disconcerting
  - The future of export volumes seems to be the key difference
- In the absence of consensus among the pipeline majors on future demand for gas, IGUA can not support any net reduction in capacity
  - Excess capacity is costly but capacity short fall is detrimental
  - Security of supply and the secondary market efficiency at risk

Cross Subsidization is a Concern

- IGUA welcomes repurposing underutilized gas assets from Empress to North Bay
- IGUA has no objection to repurposing the North Bay short cut provided there is no incremental cost to gas markets from the capacity replacement
- Imposing additional cost on gas markets for building replacement capacity for used and useful assets is construed as cross-subsidization between energy markets and should be discouraged

Considerations for Québec

Energy East

- Step up presence at the NEB, and coordinate messaging with Ontario
- Seek sufficient pipeline capacity to meet current and future demand for gas
- Discourage cross subsidization between energy markets

Gas Market Transition

- Develop roadmap for economic development based on proximity to shale supply
- Empower the Régie to coordinate with OEB and NEB in addressing related pipeline issues
- Enhance gas market transparency
  - NEB to develop oversight capability similar to FERC

Thank You