

Evolving the Regulatory Framework for Natural Gas

Canadian Gas Association
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Hon. Howard Wetston, Q.C.
Chair
Ontario Energy Board



ONTARIO ENERGY BOARD
COMMISSION DE L'ÉNERGIE DE L'ONTARIO

Overview

- Ontario's Energy Sector
- Natural Gas Forum
- Linking Gas and Electricity
- Demand-Side Management
- Regulators Working Together



Ontario's Energy Sector

- Area.....1,076,395 km² *(source: Ontario Ministry of Finance)*
- Population.....12.1 million *(source: Ontario Ministry of Finance)*
- GDP..... \$466.6 billion (41 per cent of Canada)
(source: Ontario Ministry of Finance)
- Gas Consumers
 - Residential....2.7 million *(source: OEB)*
 - Business....over 260,000 *(source: OEB)*
- Electricity Consumers
 - Residential..... 3.8 million *(source: OEB)*
 - Business.....over 450,000 *(source: OEB)*
- Exports.....\$317.2 billion *(source: Ontario Ministry of Finance)*
- Consumes: 30% of Canada's electricity and 15% of Canada's natural gas
- Produces: 27% of Canada's electricity and less than 1% of Canada's natural gas *(source: OEB)*

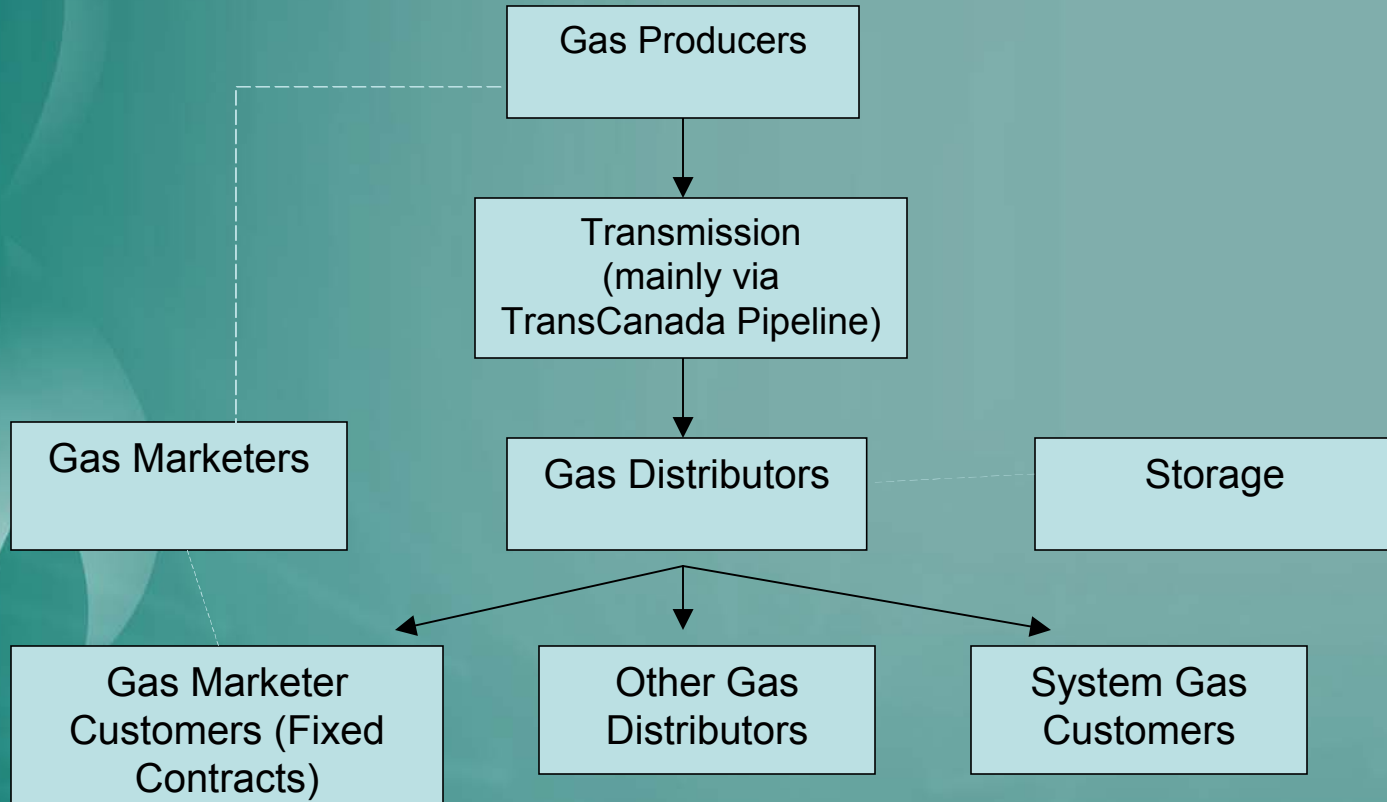


Ontario's Energy Sector

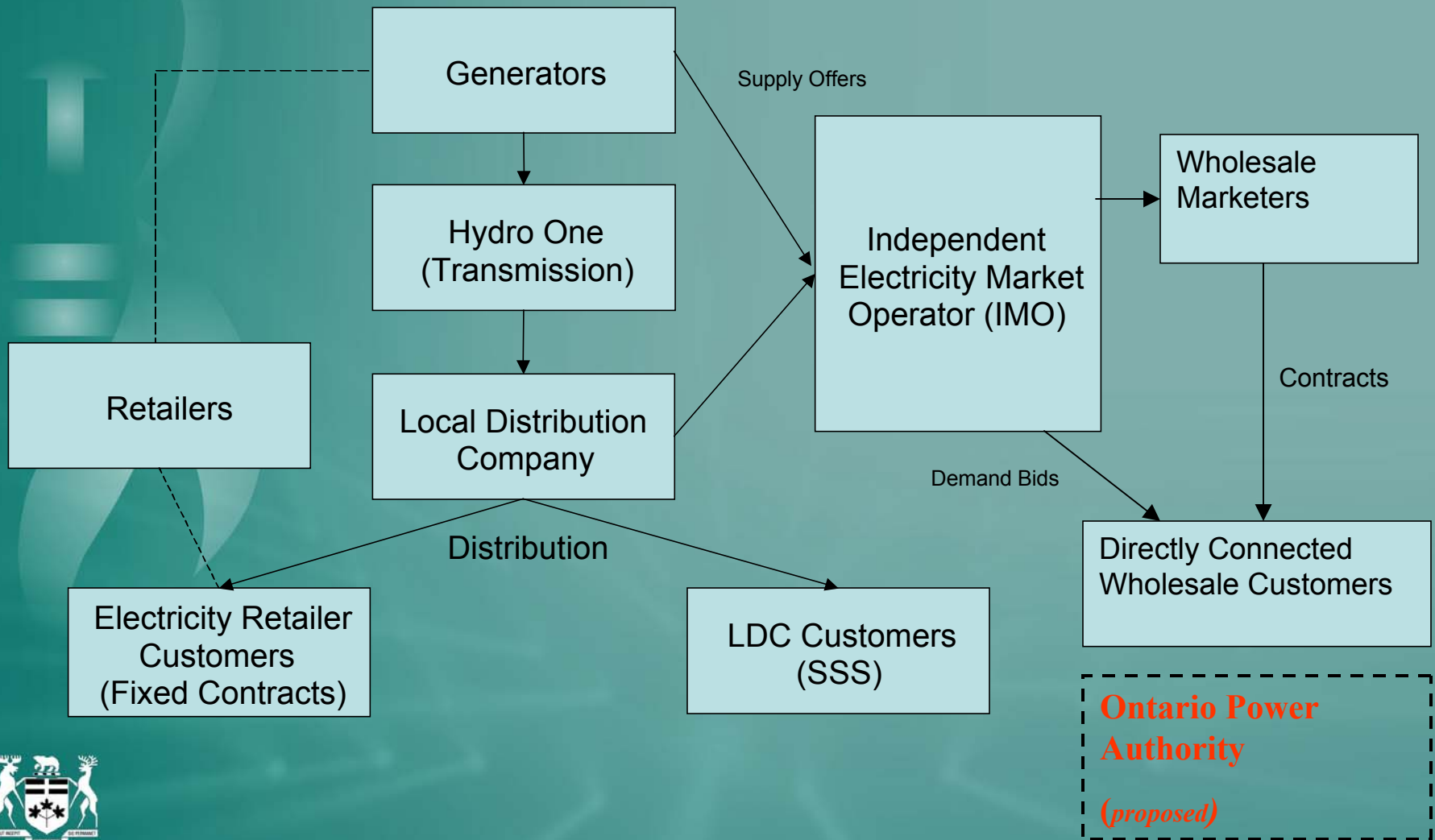
- Electricity Generation Plants:
 - 5 Nuclear: 11,606 MW
 - 5 Coal: 7,546 MW
 - 22 Oil/Gas: 4,364 MW
 - 61 Hydroelectric: 7,682 MW
 - 2 Misc: 66 MW
 - 95 Total: 31,264 MW
(source: IMO)
- Natural Gas Pipelines..... 51,100 km
(source: OEB)



Ontario's Natural Gas Sector



Ontario's Electricity Sector - Current



Natural Gas Forum

- Seven years since last OEB review of the sector
- Initiative will lay groundwork for improved efficiency and effectiveness in regulation
- Board discussions with stakeholders have identified several priority issues



Why a Natural Gas Policy Review?

- Natural Gas is vital to Ontario's economy
- Natural Gas is a fuel of choice for power generation, which Ontario needs
- Ontario market has operated well, but is not keeping pace with North American market
- Need to be proactive to ensure Ontario has a secure supply at a reasonable price



What is Natural Gas Policy Review?

- Dawn hub a major trading point
- Significant storage area
- Major delivery and trading capacity



What is Natural Gas Forum?

- Proactive response to industry issues
- Vehicle to address importance of natural gas for Ontario needs
 - Sustainability of supply to meet current and growing demands
- Review of regulation's role in facilitating supply, conservation
- A forum for policy discussion and debate
- A non-adversarial approach – free to discuss all the options
- *Forum is a policy debate - not a hearing*



Natural Gas Forum Process

- OEB commissioning research studies/options papers on various issues - mid-August
- Stakeholder opportunity to bring other options forward - late August
- Technical conferences for debate and discussion of issues and options - early September
- Stakeholder submissions on options - late September
- Board proposed policies issued for consultation - November
- Implementation of policy decisions through rate making, guidelines, generic hearings and, potentially, legislation



Natural Gas Forum Issues

- Role of gas distributors in system gas and distributors' gas supply function
- Storage
- Regulation of gas distributors, especially incentive based



Natural Gas Forum Questions

- Regulation's role in fostering conservation
 - Rate-making to encourage consumers, incentives to gas distributors, rules to allow market solutions?
- Sustainability of supply
 - Is there a need for long-term supply requirements?
 - Who is responsible for planning for supply/demand balance?
 - What is the role of the gas distributor?
- What are the appropriate regulatory tools to foster security of supply at reasonable prices?



Linking Gas and Electricity

- OEB regulates both sectors
 - Impacts of policies in one sector affect the other
- Increased Integration:
 - Replacement of existing plant and coal conversion means more reliance on gas fired electricity generation
 - Electricity infrastructure planning must factor in availability of gas infrastructure
 - Issue of spark spread
 - Gas rates that facilitate generation
 - Rate issues for electricity distributors when distributed generation is connected
 - Gas cogeneration



Efficiency: A Key Factor

- Market failure can occur if market, on its own, does not allocate appropriate resources to a given activity
- OEB must correct potential misallocation, and facilitate more efficient allocation.
- Risk of mismatch between tools and realities we face
- Regulatory instrument must match economic need and remedy problem
- Preventing mismatch is a key goal



Demand-Side Management

- Energy conservation is a priority in Ontario
- The two large gas utilities have managed DSM portfolios for over 10 years
- Areas for improvement could include regulatory instruments and verification
- Consistency and clarity are important



Regulators Working Together

- Increased co-ordination and communications
- CAMPUT a platform for national and global information exchange



Regulators Working Together

- All jurisdictions have common interests:
 - supply
 - sustainability
 - price
 - providing electricity and generation and viability of gas as an alternative fuel
- More harmonization = lower cost of doing business

