

Natural Gas Market Changes & Public Confidence

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IGUA Disclaimer

- Founded in 1973, Industrial Gas Users Association represents large gas users at the OEB, Régie and the NEB
- Members from mining, metals, chemicals, forest products & manufacturing sectors
 - Cyclic commodity businesses
 - Energy intensive operations
 - Gas consumption exceeds 148 PJ per year
 - Energy costs factor in international competitiveness of member

Winds of Change or Storm Clouds? Public Confidence on the Ground

- Different market perspectives on shale gas
- Contrast between market expectations and reality
- Casualty: Confidence in the Regulatory System

- Lessons learned...to be applied to the next jauggernaut Climate Change

IGUA Lens on the Changing Gas Markets

*Fact: Abundant new gas supply from shale,
large US basin close to ON and QC*

- Gas User expectation: Lower landed cost of gas
 - Less price volatility
 - Diverse and secure supply
- Reality: Higher risk, volatility and landed cost during transition
 - Infrastructure bottlenecks & stranded assets
 - Threat of supply shortage and cost increase
 - Multiple and disjointed regulatory proceedings
 - Delayed access to lower cost supply
- Casualty: Trust in "the system"
 - Disenfranchised, no effective outlet for issues
 - Regulators as collateral damage

A Different Lens, A Different Narrative

*Fact: Abundant new gas supply from shale,
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- Expectation: Effective allocation of risk for underutilized pipe and efficient pipeline approval process to connect the new supply to domestic and export markets
- Reality: Painful process and growing obstacles to pipelines unrelated to the pipe: scope creep in the review process, roadblocks to pipeline construction and investment
 - Well intended but unhelpful political intervention
 - Blurred boundary between government policy and regulation
- Casualty: Trust in "the system"

Another Lens... Another Narrative

*Fact: Abundant new gas supply from shale,
large US basin close to ON and QC*

- Concern: Safety of shale extraction methods
 - Potential for adverse impact on environment, land and water
- Reality: Shale gas production continues to increase
 - Political support for shale gas grows in US and Canada
 - Local impact of intense production reinforces concerns
- Casualty: Trust in "the system"

Trust in “the System” Must be Restored

- The energy system faces even greater change
 - Shale gas changed the entire natural gas market
 - Climate change mitigation will transform the energy market
- Energy is integral to Canada’s prosperity
 - Standard of living
 - Economic development (energy and industrial sector)
- Canada has one of the best regulatory regimes in the world
 - We have to learn from the painful handling of the natural gas market evolution
 - So we can better manage the transformation of Canada’s energy system to a low carbon system
- Regulators can facilitate a constructive path forward

Lessons Learned

- Discreet regulatory applications filed before any single regulator are not the best tool for reviewing fundamental system wide changes
- Canadian public needs and wants to be involved in any major transformation of the energy system
- Policy makers struggle with complex energy systems
- Regulators have a valuable depth of knowledge about energy systems and experience in balancing divergent perspectives in determining public interest
- Most regulators have a legislative advisory role in addition to an adjudicative mandate
 - Must be used judiciously by government without temptation to control
 - Regulators should contribute with unbiased expertise

Prepare for the Winds of Change

- Meeting the mid to long-term targets for climate change mitigation will transform the energy systems in Canada
 - Fundamentally different from internalizing short term targets which many regulators have faced or still face
 - Regulators will need to access credible expertise (develop / hire)
- Find complimentary processes to the hearing room to engage with the broad stakeholder community (beyond the usual regulatory suspects)
- Coordinate beyond traditional silos with other regulators for a broader picture
- Provide some level of forward vision on expected changes/trends and impact on people, economy and the environment

Concluding Remarks...Wish List?

- Engage the broad stakeholder group
- Develop a view on the impact of mid-term targets and deep de-carbonization on energy supply, energy infrastructure and markets
- Review appropriate life expectancy for infrastructure given climate pressures
- Examine transformation options that optimize infrastructure efficiency
- Phase out instruments rendered redundant by carbon regulation

Thank You

Questions?