

EB-2007-0707
Integrated Power System Plan
CAE (Clean Affordable Energy) Alliance Response to
Interrogatories of Union Gas Limited / Enbridge Gas Distribution

Reference: Exhibit L, Tab 22, Schedule 1

Submission

1. Reference: Page 16

“Once coal-fired power is removed from service, natural gas is expected to set market price 85% of the time (Union Gas), at more than double the cost.”

Reference: Page 20

“Market price will be set primarily by natural gas (85% of the time, according to Union Gas).”

Please provide details of the source of the market price setting references attributed to Union Gas.

The CAE Alliance used a few sources to come to this conclusion.

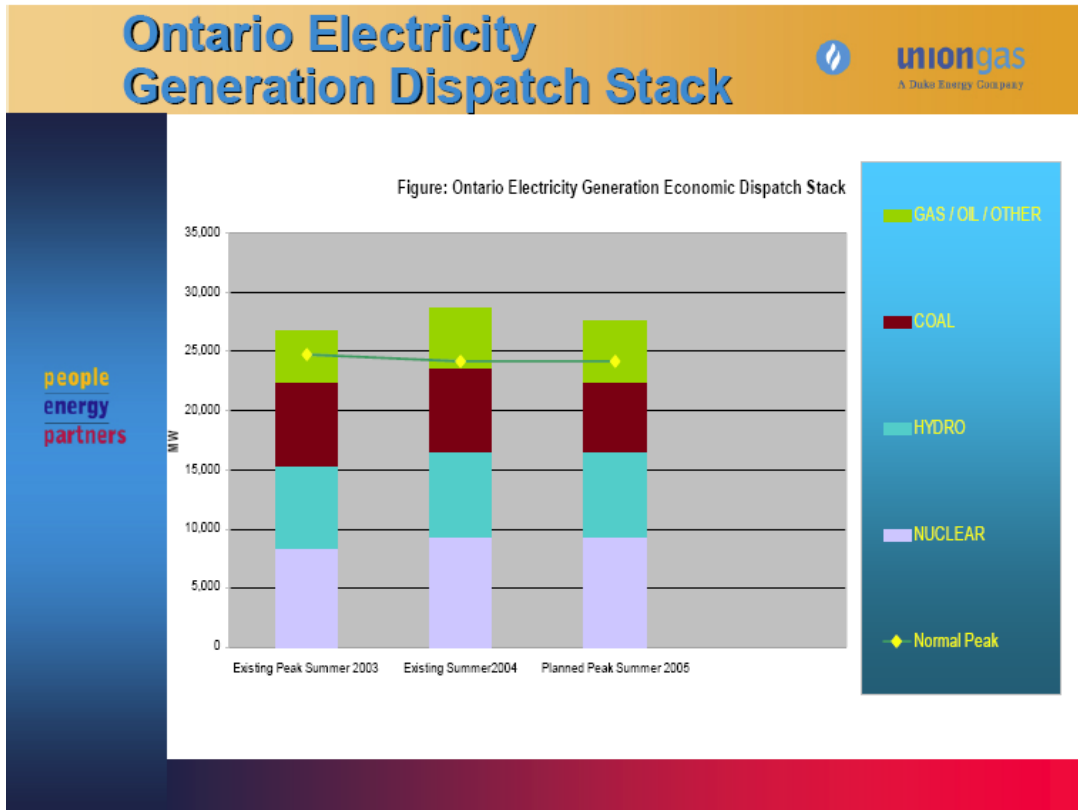
■ The following chart was obtained from a Union Gas presentation, "Electricity Market Update", June 22, 2005. Although this was prepared when coal fired generation was expected to be removed from service by 2007, the premise remains the same, as noted in this slide, i.e. "Natural gas generation will likely take the place of coal fired capacity for price setting purposes."

The slide features a blue header with the title "Forecast Electricity Prices" and the Union Gas logo (a flame icon) and "uniongas A Duke Energy Company". On the left side, there is a vertical blue bar with the text "people energy partners" in white and red. The main content area is white with a blue border on the left and a red bar at the bottom. The text on the slide reads:

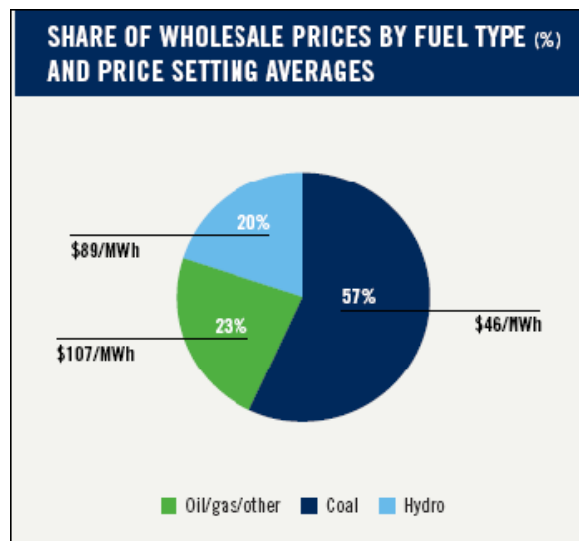
Longer term pricing issues

- Natural gas generation will likely take the place of coal fired capacity for price setting purposes
- In 2004 coal generation set the price 55% of the time
- Beyond 2007 natural gas will set the price 85% of the time

■ This coincides with the realities of the market dispatch order of generating resources. With coal fired generation removed, gas fired generation will be dispatched in place - with the exception of less expensive imports. (The information used in this chart was obtained from the IESO.)



■ The following chart (IESO, 2005) shows the percentage of time that hydroelectric, coal and natural gas resources set market price. Limited new hydroelectric resources expected in the next 10 years will not make any significant change to hydro's share of market setting price. This leaves natural gas to "pick up" coal's contribution of 57%+/-.



■ As noted in our information to the Board, "According to the Electricity Conservation & Supply Task Force, Final Report, "Coal-fired generation is today's lowest cost electricity-generation fuel and has set the market-clearing price 56% of the time in Ontario since market opening. If that segment of the market is removed, it is likely that the market-clearing price will be predominantly set by higher priced natural gas generation. This will have a significant effect on the price Ontarians pay for electricity." (emphasis added)