

**Ontario Petroleum Institute  
Morning Keynote Speech  
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Assistant, Ministry of Energy**

Good morning delegates and invited guests. It is, for me, a particular pleasure to join you here today. I am grateful for the time that a number of you in this room have put into working with me, and with the Ministry of Energy.

I'm bringing you greetings from Ontario Minister of Energy Bob Chiarelli. I also hope to share some of the Ministry of Energy's thinking on where energy in Ontario is headed in the next few years.

Oil and natural gas play an essential role in the daily lives of Ontarians, supplying three-quarters of the province's primary energy use. You all know the story of petroleum extraction in Ontario during the past century and a half. Everyone here is part of a mosaic of the sector's entrepreneurial spirit, and these days, sheer tenacity and forbearance.

It is important for you to hear that your government acknowledges and celebrates your accomplishments, and the careers and opportunities in many other fields that *support* the energy sector, including education, environmental consulting, engineering, exploration, the trades, law and finance.

**I hope we can help you.** We have lots of work to do together in the very near future. We have an energy future in our Province to plan together in greater scope and detail than Ontario has ever done in the past. Six years ago, Ontario began a process called the *Long-Term Energy Plan*, to lay out a periodic and evolving blueprint of where our residents and businesses would find, manage and use energy over the long term.

I call it a process, because as times change, and our collective ability to think through and match energy to the Province's challenges improves, we will continue to refine and revisit that Long-Term Energy Plan.

The first plan, in 2010, was largely about electricity. The second Long-Term Energy Plan, in the fall of 2013, was largely about electricity, gas and renewables.

When I spoke to this gathering not that long ago in Windsor, I suggested that the third iteration of the Long-Term Energy Plan, to be released at about this time in 2017, should also address Ontario's supply, management and use of petroleum resources.

Natural gas and electricity are part of the same continuum. From 2003 to 2014, natural gas electricity generation in Ontario grew from about 12 terawatt-hours to about 15 terawatt hours, an increase of about 25 per cent. For context, 15 terawatt hours is approximately twice the annual consumption of my home city of Mississauga, or somewhat more than that of Winnipeg.

Natural gas, of course, is used for space heating and water heating within our homes and businesses, steam and process heat for industry. We *have* natural gas in Ontario, and many municipalities are asking to be connected to a reliable and economical supply of natural gas.

Ontario even has two programs to assist municipalities to access and distribute natural gas. We have key parts of that plan to continue to think through and build upon. I believe we both mean to do that natural gas distribution thinking together.

Keep an open mind before hanging on every word I will say. If I could accurately predict the future, I would have bought lottery tickets and speculative stocks during the past few years, sold other stocks short, and might now be sipping a cold drink on a warm beach somewhere. But like you, I am mortal and fallible.

Not to overly belabour the obvious, none of us here can say definitively what interest rates will be in five years; what price a barrel of oil will command; who will have been fighting with whom in the world; or what new innovation may be re-shaping our view of the future.

We can, however, say that we will be doing something proactively with the pricing of carbon: in Canada, in the USA, and everywhere in the world. That does not, however, mean that the world will stop finding, extracting, refining and shipping oil and gas.

The Dawn and Tecumseh underground natural gas storage facilities, with some 250 *billion* cubic feet of storage between them, play an important role in the delivery of natural gas within Ontario, as well as supporting the delivery of natural gas to consumers in Québec and the northeastern United States.

These facilities can store enormous quantities of natural gas. This capability helps suppliers minimize price volatility, and ensures that sufficient gas is available to meet peak heating demand. It is anticipated that the Dawn and Tecumseh storage facilities will increase in strategic importance as U.S. pipeline infrastructure expansion allows for increased delivery of shale gas from the Marcellus and Utica basins to southwestern Ontario.

Natural gas is also important for many manufacturing industries across the province. Ontario's petrochemical sector, focused in the Sarnia area, employs about

12,000 people, and is strategically located to take advantage of Ontario's southwestern natural gas storage facilities.

Reliable and affordable natural gas supply is a critical to improving and enhancing the province's manufacturing competitiveness.

Let's take a brief overview of carbon in Ontario. In large part, carbon emissions are now out of our electricity system. About ten percent of Ontario's electricity, all of it interruptable – or 'despatchable' in electricity-speak – is produced by burning natural gas. Burning natural gas produces carbon dioxide and water vapour, and little else. Ontario's electricity system has already paid the price of removing carbon.

However, gas-fired generation facilities help ensure the reliability of the electricity system during periods of peak demand. Natural gas is vital to integrate Ontario's grid of emissions-free and intermittent renewable sources of electricity supply such as wind and solar. Natural gas in the electricity sector is there when the sun won't shine, the wind isn't blowing, and people and businesses need power. You can't have reliable renewable electricity in the near future *without* natural gas.

The industrial, commercial and institutional sectors are nowhere as far along as Ontario's electricity sector in managing their carbon emissions. Oil and gas are used for process purposes, as well as space heating. In residential use, natural gas is principally used for space heating. And in transportation, the shift in fuel will be governed as much by technology and innovation as by legislation.

The balancing act in removing petroleum from transportation is in figuring out what other fuel will power vehicles.

Inside cities, assuming not-yet-existing charging facilities, you can make a case for substituting *some* petroleum fuel for electricity, but only if you are using carbon-free electricity. There is, for example, little point in moving to electric transportation if your electricity system runs on coal, as much of the USA Great Lakes basin does. That's just converting gasoline-powered cars to coal-powered cars, and taking a full step backward.

In transportation, as the industry gurus preach, *density is everything*. In this province and country, not much outside a few dozen cities meets any definition of 'dense.' I would not be out-of-line in predicting that for the foreseeable future, inter-city transportation, heavy machinery, railway freight and aircraft will operate on fuel similar to what's being refined and sold now.

Whether the fuel be gasoline, aviation fuel, diesel oil or anything similar, petroleum-based liquid fuel is stable, portable, economical and contains the high amount of energy per unit of mass that civilization needs to function at this moment in time.

So let's look at oil, the primary energy source for our vehicles. We rely on pipelines and tanker cars to connect to all but about one percent of our supply now. That will continue as we all look ahead to the province's future supply and demand needs.

That means we need to think through the issue of pipelines with clarity and with wisdom. The dialogue between OPI's members and our Ministry should ensure the province's interests are taken into account by evaluating oil and natural gas pipeline projects, ensuring they meet the highest available technical standards for public safety and environmental protection.

Pipelines must also have world-leading contingency planning and emergency response programs. Proponents and governments must consult with First Nations and Métis communities and with local municipalities.

Projects must also be economically beneficial to the host communities. Risks, responsibilities and financial assurance must be demonstrated by the pipeline company. I don't think this is either a surprise, or asking for anything the industry does not now do in other jurisdictions, or do thoroughly, and do with integrity.

And even though Ontario imports about 99 per cent of its oil supply from western Canada and U.S. sources, in 2013, Ontario also produced approximately 439,000 barrels of oil from 1,183 wells with a value of \$38.3 million.

Nearly everybody outside this industry to whom I speak about how much oil Ontario produces is surprised to know we produce any oil at all! We have a communications challenge ahead.

That's why oil and gas has to be such an integral part of the 2017 Long-Term Energy Plan. Even while focusing on carbon emissions, oil and natural gas are now, and will remain, critical components of Ontario's energy system.

Ontarians are interested in learning more about opportunities for additional oil and gas development and what issues affect extraction, refining, production, distribution and retailing.

A lesson I learned long before I was first elected, and which I have never forgotten during the time I have served in elected office, is that while Canadians feign indifference to public issues and those who manage them, they are keenly aware of those very issues and their importance. I think we can trust the people we all serve to

help us with some of their thinking as we work through our challenges and opportunities together.

Nobody, anywhere, likes paying for energy in any form. It's like buying car tires. You have to have them, but they are a 'grudge purchase.' Everyone knows how quickly life comes to a halt if we don't have energy, though. The people we together serve know your industry – and our Province – needs to deliver reliable, affordable, diverse and secure energy in all its forms. We have done so in the past, and will continue to do so in the coming years.

Our oil and gas industry needs to be profitable and sustainable. That's a challenge these days. It's like trying to explain to Ontarians that investing in electricity generation and transmission is a good idea, when so many other jurisdictions are *not* spending money on their citizens' energy future, and leaving those citizens at a growing risk of a very dark and expensive future.

We are going to work together on a Long-Term Energy Plan that brings Ontario's oil and gas sectors fully into the mainstream of our energy thinking for the 21<sup>st</sup> century. It's the right thing to do, and it's the smart thing to do. It just may not be the easiest thing to do...

Now it's time to talk about cap-and-trade. The challenge with the legislation Ontario is working on as we speak is to ensure that the rules are designed with the participation and consent of those affected, which in many cases means you in this room.

This is the year in which Ontario will do the heavy lifting on a foundation of legislation to build a low-carbon economy, and address climate change. We'll know it as Ontario's cap and trade program.

As I mentioned earlier, Ontario has made electricity generation almost completely carbon free. To put it another way, in the last decade, Ontario has bought the electricity transmission and generation system of *tomorrow*, paid for it using *yesterday's* money, and financed it for its useful lifetime at interest rates of nearly zero. Most of the rest of the world is now scrambling to catch up, and build *today's* electricity transmission and generation, spending *tomorrow's* money, and financing it at interest rates that have nowhere to go but up.

We got electricity right, although a lot of the right moves were not popular when they were made, and remain misunderstood – even misrepresented – today.

Despite our best present and future efforts to draw Ontarians into our joint thinking as we design and implement cap-and-trade together, I expect similarly interesting experiences along that road too.

Two Ontario Ministries will be fully engaged in consulting with Ontarians and with our various industry sectors while figuring out how to design and implement cap-and-trade. One is Energy. The other is Environment and Climate Change.

And for everyone's best intentions, there are certain to be points on which the government and industry participants will differ, possibly passionately. We'll need to find a consensus, and also recognize that we must be open to changing that consensus when and where we need to change as a result of real-world experience and evolving circumstances. That is another lesson learned from the two Long-Term Energy Plans.

Under the proposed cap and trade program design, Ontario's natural gas distributors (like Enbridge Gas and Union Gas) would be the "point of regulation" for

Ontario's smaller natural gas consumers and natural gas-fired electricity generators.

This means that natural gas distributors will purchase allowances to cover emissions of natural gas-fired electricity generators and other consumers that are not directly covered under cap and trade. I personally believe there are some contributions OPI may want to suggest to this framework.

As a regulated entity, costs prudently incurred by gas distributors to comply with the cap and trade program would be passed on to natural gas consumers, once reviewed and approved by the Ontario Energy Board.

The Province, through its regulatory agencies, will also take steps to ensure that the net impact of cap and trade would not result in an overall increase in electricity costs for average commercial and industrial consumers, and that there would be a modest benefit of up to \$2 per month, on average, to residential consumers.

The conversations about cap-and-trade vitally need the continuing input from this sector. Although a great deal of the dialogue with OPI and the petroleum sector, as well as other sectors, will give rise to an 'event,' which will be the 2017 release of Ontario's third Long-Term Energy Plan, that event won't conclude discussions around cap-and-trade, or around more tightly integrating oil and gas into the Province's ongoing comprehensive energy thinking.

In fact, it was due to what the Province learned during the 2013 process that produced the last Long-Term Energy Plan that gave rise to Bill 135, the *Energy Statute Law Amendment Act*. This Act, if passed, would enshrine in legislation the kind of planning process that the Ministry used to develop the 2013 Long-Term Energy Plan.

The 2013 planning process was highly collaborative. A number of stakeholder sessions and public town halls took place in

more than a dozen Ontario communities. More than 1,000 formal submissions were considered and the ministry received about 8,000 responses to an online survey.

It was a lot of work to sift through it all, and the body of knowledge was not the *only* resource that came out of it. We also learned some lessons about good process, and have incorporated them into legislation to substitute a new, good process where we had old and unworkable process in the past.

If the proposed legislation passes, formal consultations should begin later this year on the next Long-Term Energy Plan. These consultations will include a discussion guide released in advance of public engagement sessions.

This guide will be based on two technical reports: one for the electricity sector, which will be developed by the Independent Electricity System Operator, and one for the fuels sector, which means the folks here today. This report will be developed by an independent third party.

The Ministry has established a *Fuels Sector Working Group* to support the development of the technical report and the broader 2017 Long-Term Energy Plan policy development process as it pertains to the fuels sector.

As in 2013, there will be also be an opportunity to make a formal submission through the Environmental Registry. The ministry will share the discussion guide and information on the schedule of consultations.

Good process will help us validate all of our mutual assumptions. If together we see that we are onto something, the planning process should help us lead Mr. and Mrs. Ontario, and the next generation of leaders and innovators, to grasp that their government, and their diverse energy industries, are on *their side* in seeking a

better quality of life, sustainable economic growth, and a cleaner, healthier environment.

On behalf of the Ontario Ministry of Energy, we are going to accomplish these goals *with* you. For me, the Ontario Petroleum Institute, and Ontario's oil, gas, exploration and petrochemical sectors, are personal projects within our Ministry.

I am confident that we will succeed, possibly to our own mild surprise. We *all* want to build a strong, profitable, clean, comprehensive and balanced Ontario energy sector, properly using energy in all its forms.

We all know that a strong and profitable oil and gas sector will reward Ontarians with interesting and challenging careers, and improve the quality of life in Ontario for decades to come.

I look forward to being with you as we take the next steps together in Ontario's energy future. I am very grateful for the invitation to join you today, and hope that we continue to see one another as time progresses.

Thank you very much.