



ONTARIO ENERGY BOARD

BOARD STAFF SUBMISSION

Union Gas Limited

Dawn to Dawn-TCPL Firm Rate

Board File No. EB-2010-0207

July 29, 2010

Introduction

Union Gas Limited (“Union”) filed an application (the “Application”) on June 11, 2010 with the Ontario Energy Board (the “Board”) seeking approval to modify its current approved C1 rate schedule to accommodate a new firm transportation service from Dawn to the Dawn-TCPL interconnect, effective November 1, 2010.

Customer Need

Union is developing this new firm transportation service which, as proposed, will provide Shippers with up to 500,000 GJ/day of firm physical transportation from Dawn to the Dawn-TCPL interconnect. This proposal will require modifications to Union's facilities at Dawn at a cost of approximately \$3.3 million. The proposed transportation service is in direct response to customer demand arising from changing North American gas supply dynamics.

Union recently completed a binding open season specific to this proposed service. As a result, Union and TransCanada PipeLines (“TransCanada”) have executed a firm transportation contract for Dawn to Dawn-TCPL for a daily quantity of 500,000 GJ/day and a term of five years.

Board staff believes that the proposed service offering has been designed by Union to meet the evolving needs of TransCanada as a result of the changing North American gas supply market.

Rate Design

The proposed rate for the firm Dawn to Dawn-TCPL transportation service consists of the following components:

- 1) A firm monthly transportation demand charge of \$0.222/GJ applied to daily contracted demand; and
- 2) Seasonal fuel ratios to recover incremental Dawn compressor fuel and UFG associated with providing the service.

The firm monthly demand charge of \$0.222/GJ is designed to provide for a reasonable contribution towards the recovery of fixed costs associated with the assets used to provide the proposed Dawn to Dawn-TCPL transportation service and to recover all the costs associated with the capital investment of approximately \$3.3 million required to provide the firm transportation service.

Union noted that it has no assurance from TransCanada that the contract will be renewed beyond the 5-year term of the contract and therefore must recover the entire capital investment of approximately \$3.3 million over 5 years. All of the capital costs will be recovered solely from TransCanada in the proposed firm monthly demand charge. Union noted that this approach is appropriate given the short-term nature of the service and ensures that the costs associated with the capital investment are not borne by other ratepayers.

Board staff submits that recovering the capital costs over a period of 5 years is not typical given that the market changes are expected to be long-term in nature as agreed to by Union in response to Board staff Interrogatory No. 1(e). However, given the uncertainty Union faces in regards to re-contracting beyond the initial 5-year term, Board staff submits that Union's proposed rate design is appropriate in order to ensure no ratepayers, other than TransCanada, pay the capital costs related to the proposed transportation service.

In addition, Board staff notes that TransCanada is aware of Union's proposed rate design and has not, at this time, raised any issues with the Board. Board staff submits that the Board should allow Union to charge the proposed rate and therefore recover the entire capital investment for the new service from TransCanada over the 5-year term of the contract barring any complaints from TransCanada.

Board staff notes that Union stated, in response to Board Staff Interrogatory No. 5(f), no adjustments will be made to the firm monthly demand charge if the capital investment is higher or lower than the estimated \$3.3 million. Board staff suggests that the Board should note in its Decision that any capital costs related to the proposed new service over the \$3.3 million estimated by Union in its Application shall be paid by Union's shareholders and not its ratepayers.

All of which is respectfully submitted.