



## BOARD STAFF SUBMISSIONS

UNION GAS LIMITED.

Application for Leave to Construct

Trenton Area Reinforcement Project

EB-2010-0329

January 24, 2011

Union Gas Limited ("Union") filed an application with the Ontario Energy Board on November 11, 2010, under section 90 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Schedule B for an order granting leave to construct approximately 11.7 kilometres of 6 inch diameter and 1.2 kilometres of 8 inch diameter natural gas pipeline (the "proposed pipeline"), in the City of Quinte West ("City"), County of Hastings to meet the increased demand by the Canadian Forces Base ("CFB") Trenton . Construction is planned to start in the spring of 2011.

The Board issued a Notice of Application and Written Hearing ("Notice") on November 30, 2010. Union served the Notice as directed by the Board. There were no intervenor requests made in this proceeding.

On December 16, 2010 the Board received a letter of comment from Alderville First Nation who stated that the proposed project would have a "minimal potential to impact our First Nations' rights" and wished to be kept "apprised of any archaeological findings, burial sites or any environmental impacts, should any occur."

The Board set a written proceeding schedule in the Procedural Order No. 1 issued on January 4, 2011. In accordance with the procedural schedule, Board Staff filed interrogatories ("IR") on January 10, 2011 and a supplementary IR on January 14, 2011. Union responded to all IRs on January 17, 2011. These Board Staff submissions have been filed pursuant to the Procedural Order No. 1 dated January 4, 2011 and support Union's application. Board staff filed proposed conditions of approval (attached as

Appendix A to these submissions) as part of interrogatories and Union responded that it would comply with the proposed conditions.<sup>1</sup>

This submission reflects Board staff's position with respect to the application arising from Board staff's review of the case record. In this regard Board staff has organized its submission to address the following four issues:

- Need for Reinforcement of the Proposed Pipeline;
- Cost of the Pipeline;
- Road Allowances and Landowner Issues; and,
- Environmental Matters

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<sup>1</sup> Note that the proposed conditions are the standard Board conditions which relate to pipeline construction. Board Staff submit that the condition 1.5 be amended. The amended version is attached in the Appendix A for Union's review and comment.

## 1. Need for Reinforcement of the Proposed Pipeline

Union stated that in 2007 the Federal Government announced the expansion of the CFB Trenton and the construction of the Airlift Capability Project is underway. The completion of the expansion is planned for 2015. The CFB Trenton expansion will create additional gas demand and the need for the existing pipeline system reinforcement by Union. Board staff submits that the reinforcement of the pipeline system in this area is needed to meet increased demand from the Canadian Forces Base Trenton.

The terms of service and the associated revenue to Union will be set by a Rate 20 distribution sales service contract with the Department of National Defence ("Contract"). In response to Board Staff IR # 1, Union filed a redacted copy of the Contract which consists of 2003-04 Northern Gas Distribution Contract and Schedule "1" of the 2009-10 Sales Service Contract.<sup>2</sup>

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<sup>2</sup> The Contract which will be executed and renewed annually consists of 2003-04 Northern Gas Distribution Contract and Schedule "1" to this contract. Schedule "1" contains general contract parameters and is subject to signing every year.

Union stated that the 2003-04 Northern Gas Distribution Contract has not changed since 2003 and Schedule “1” did not change for 2010-2011. Union confirmed that it would file a redacted copy of the 2011-2012 Sales Service Contract once it is signed. Union has indicated in its evidence that the Contract would be renewed annually and the current Sales Service Contract was automatically renewed on November 1, 2010. The 2011-2012 Contract will have new terms to reflect the reinforcement project subject to this application.

## 2. Cost of the Pipeline

The estimated capital cost of the pipeline is \$8.3 million. Board staff submits that the project is economically feasible based on the E.B.O. 188 portfolio approach<sup>3</sup>. On “stand alone basis” it is feasible (PI=1) with capital contribution by the customer. The evidence states that the funds are available. Union in its application, indicated that the process of the formal approval of the capital investment by the Minister of National Defence (“DND”) is underway. The Discount Cash Flow (“DCF”) analysis presented in the pre-

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<sup>3</sup> EBO 188 Report of the Board issued *in 1998* established a set of standards that the utilities were to adhere to for all distribution system expansion projects. In particular, the EBO 188 directed: a financial and environmental assessment of distribution expansions based on a portfolio approach; Discounted Cash Flow method for financial feasibility analysis; and customer connection and contribution policies.

filed evidence indicates that the capital contribution by the DND is estimated at \$8.5 million. The pre-filed evidence includes a letter from the DND, dated October 21, 2010 (“DND Letter”). The DND letter acknowledges that the funds for the project financing in the amount of approximately \$ 8.5 million would be available pending approvals of the Government of Canada.

Board Staff note that the estimated capital contribution is larger than the estimated cost of the proposed project. Regarding determination of the amount of capital contribution, Union, in response to Board Staff IR # 2, explained that the capital contribution is calculated based on estimated costs and revenues by way of DCF, and that Union and DND will sign an Indemnity Agreement prior to construction commencement. The Indemnity Agreement would set the payment plan and that all costs would be paid by the DND as incurred by Union.

Union, in response to Board Staff IR # 3, further explained that the capital contribution of \$8.5 million is required from the DND to cover Operations and Maintenance expenses and taxes for the 10 year period of the DCF analysis. The reason for this is that the revenue included in the DCF is only for one year. In Board Staff’s view the explanation is acceptable because revenues are guaranteed under the Sales Service Contract which is renewed annually. However, Board Staff note that, in response to Supplemental IR # 1, Union stated that “the expected change to Union’s rate base as a result of this project is a reduction in rate base of approximately \$135,000. “ It would be helpful if Union, in Reply Submissions, address this matter and provide a step by step explanation for its estimate that the rate base would be reduced by \$135,000.

Board Staff note that actual costs will not be available until the project is completed. For this reason, Board Staff propose that the Board impose a condition on Union and require that Union provide a report on the actual costs and the amount of capital contribution by DND for the project. Board Staff propose that the Board include the following as a Condition of Approval should the leave to construct order be granted:

1.5 Within 15 months of the final in-service date, Union shall file with the Board Secretary a Post Construction Financial Report. The Report shall indicate:

a) the actual capital costs of the project and an explanation for any significant variances from the estimates filed in this proceeding.

**b)** the actual capital costs for the project borne by Union and the actual costs contributed towards construction by the Department of National Defence including the method and the actual cost inputs used to determine the final amount of the contribution by the Department of National Defence.

### 3. Road Allowances and Landowner Issues

Most of the proposed pipeline is within the City of Quinte West (the “City”) municipal road allowance. However, although discussions with the City are underway, Union has yet to obtain approvals. Union indicated in its pre-filed evidence that the City did not raise any concerns with the proposed pipeline project. With regard to private lands, Union requires easement agreements for 5 short segment locations from 4 individual landowners. Options for these agreements have been signed. In response to Board Staff IR # 4 Union stated that it expected to finalize the closings and transfers for all permanent easements by January 31, 2011. Temporary easements have been negotiated and final agreements are anticipated to be signed by early 2011 after permanent rights are registered on title. Union filed a form of easement agreement in the pre-filed evidence.

### 4. Environmental Matters

The Environmental Report was completed by Azimuth Environmental Consultants in accordance with the OEB Guidelines. Design specifications, according to Union’s evidence, meet the requirements of the CSA Z662-07 and other applicable regulations and standards. Union stated that it would obtain all of the required permits prior to beginning construction.



Regarding letter of comment by Alderville First Nation, Union confirmed, in reply to Board Staff IR # 5, that it would notify the Alderville First Nation should any archaeological site be discovered. Board Staff support Union's approach to this matter.

Board Staff have no outstanding concerns or issues with the application, and submit that the proposed conditions of approval should be included in the Board's order.

All of which is respectfully submitted.

Appendix A  
EB-2010-0329  
Proposed Conditions of Approval

January 24, 2011

EB-2010-0329

Union Gas Limited  
Leave to Construct Application

Board Staff Proposed Draft

Conditions of Approval

**1 General Requirements**

- 1.1 Union Gas Limited ("Union") shall construct the facilities and restore the land in accordance with its application and the evidence filed in EB-2010-0329 except as modified by this Order and these Conditions of Approval.
- 1.2 Unless otherwise ordered by the Board, authorization for Leave to Construct shall terminate by December 31, 2011, unless construction has commenced prior to that date.
- 1.3 Union shall implement all the recommendations of the Environmental Report filed in the pre-filed evidence, and all the recommendations and directives identified by the Ontario Pipeline Coordinating Committee ("OPCC") review.
- 1.4 Union shall advise the Board's designated representative of any proposed material change in construction or restoration procedures and, except in an emergency, Union shall not make such change without prior approval of the Board or its designated representative. In the event of an emergency, the Board shall be informed immediately after the fact.
- 1.5 Within 15 months of the final in-service date, Union shall file with the Board Secretary a Post Construction Financial Report. The Report shall indicate:

a) the actual capital costs of the project and an explanation for any significant variances from the estimates filed in this proceeding.

b) the actual capital costs for the project borne by Union and the actual costs contributed towards construction by the Department of National Defence including the method and the actual cost inputs used to determine the final amount of the contribution by the Department of National Defence.

## 2 Project and Communications Requirements

2.1 The Board's designated representative for the purpose of these Conditions of Approval shall be the Manager, Natural Gas Applications.

2.2 Union shall designate a person as project engineer and shall provide the name of the individual to the Board's designated representative. The project engineer will be responsible for the fulfillment of the Conditions of Approval on the construction site. Union shall provide a copy of the Order and Conditions of Approval to the project engineer, within seven days of the Board's Order being issued.

2.3 Union shall give the Board's designated representative and the Chair of the OPCC ten days written notice in advance of the commencement of the construction.

2.4 Union shall furnish the Board's designated representative with all reasonable assistance for ascertaining whether the work is being or has been performed in accordance with the Board's Order.

2.5 Union shall file with the Board's designated representative notice of the date on which the installed pipelines were tested, within one month after the final test date.

- 2.6 Union shall furnish the Board's designated representative with five copies of written confirmation of the completion of construction. A copy of the confirmation shall be provided to the Chair of the OPCC.

### 3 Monitoring and Reporting Requirements

- 3.1 Both during and after construction, Union shall monitor the impacts of construction, and shall file four copies of both an interim and a final monitoring report with the Board. The interim monitoring report shall be filed within six months of the in-service date, and the final monitoring report shall be filed within fifteen months of the in-service date. Union shall attach a log of all complaints that have been received to the interim and final monitoring reports. The log shall record the times of all complaints received, the substance of each complaint, the actions taken in response, and the reasons underlying such actions.
- 3.2 The interim monitoring report shall confirm Union's adherence to Condition 1.1 and shall include a description of the impacts noted during construction and the actions taken or to be taken to prevent or mitigate the long-term effects of the impacts of construction. This report shall describe any outstanding concerns identified during construction.
- 3.3 The final monitoring report shall describe the condition of any rehabilitated land and the effectiveness of any mitigation measures undertaken. The results of the monitoring programs and analysis shall be included and recommendations made as appropriate. Any deficiency in compliance with any of the Conditions of Approval shall be explained.

### 4 Easement Agreements

- 4.1 Union shall offer the form of agreement approved by the Board to each landowner, as may be required, along the route of the proposed work.

### 5 Other Approvals and Agreements

- 5.1 Union shall obtain all other approvals, permits, licences, and certificates required to construct, operate and maintain the proposed project, shall provide a list

thereof, and shall provide copies of all such written approvals, permits, licences, and certificates upon the Board's request.