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BY E-MAIL

April 11, 2011

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge St., 27th Floor
Toronto ON M4P 1E4

Dear Ms Walli:

**Re: Union Gas Limited, Applications
Leave to Construct– Red Lake Ontario
Board File Number EB-2011-0040
Franchise Agreement with the Municipality of Red Lake
Board File Number EB-2011-0041
Certificate of Public Convenience and Necessity for the Municipality of Red
Lake , Board File Number EB-2011-0042**

Please find the attached Board staff interrogatories in the above proceeding. Please forward the following to Union Gas Limited.

Yours truly,

Original signed by

Zora Crnojacki
Project Advisor

cc. All the parties in the proceeding

Union Gas Limited
Applications for
Leave to Construct Natural Gas Pipeline (EB-2011-0040)
Franchise Agreement
With the Municipality of Red Lake (EB-2011-0041)
Certificate of Public Convenience and Necessity
For the Municipality of Red Lake (EB-2011-0042)
Board Staff Interrogatories

Project Need

1. Reference: Prefiled Evidence / page 1 of 18 / para. 1 to 4

Preamble:

Union states that the businesses and residents of Red Lake have requested natural gas service.

Question:

Please expand on the reasons that Union considers it appropriate to seek leave to construct the proposed project at this time. Please include both Phase I and Phase II in your response.

Project Costs

2. Reference: Prefiled Evidence / page 7 of 18 / para. 33, 37 and 40, Schedule 3, page 1

Preamble:

The evidence at paragraph 33 states the following: "Estimates of the capital costs for Phase I for the construction of the proposed pipeline and station

April 11, 2011

facilities are \$26,905,036.00. These costs are provided in Schedule 3. As the exact timing for Phase II is not known at this time, the cost for Phase II is not being included in this filing." Total estimated project costs for Phase I in Schedule 3 include pipelines costs for NPS 8, 6, 4 and 2 diameter pipelines. Phase I according to description (para 40) does not include NPS 2 pipelines.

Questions:

- a) Please clarify if the total estimates project costs in Schedule 3 include any of the costs for NPS 2 pipelines that are planned to be constructed in Phase II.
- b) If so, please explain provide an updated schedule of the total estimated costs for Phase I only.

Project Financing

- 3. Reference: Prefiled Evidence / page 2 of 18 / para. 7

Preamble:

The evidence at paragraph 7 states the following: "For the current Project there are a number of partners who are responsible for providing funding for various phases of the Project."

Questions:

- a) Please specify the nature of the "various phases of the Project" referred to in this paragraph. Does this refer to Phase I and Phase II or additional phases? Please list the names of the partners involved in providing the funding and indicate for which phases these partners would be providing funding. Please also provide the partners' respective levels of committed contributions to the various phases of the project at this time.
- b) Please provide the details of the Phase I project financing plan and any credit facilities that may be required.

- 4. Reference: Prefiled Evidence / page 7 of 18 / para. 37

Preamble:

The evidence at paragraph 37 states the following: "A Discounted Cash flow ("DCF") analysis has been completed for Phase I. It can be found at Schedule 4.

April 11, 2011

This schedule indicates that the proposed facilities have a net present value of 0 with Goldcorp paying an aid to construct of \$25,601,796.00.”

Questions:

With respect to Goldcorp’s \$25.6 million contribution in aid of construction for Phase I, please:

- a) Describe the process between Union and Goldcorp for determining the agreed upon amount of the contribution.
- b) Provide details of the arrangements associated with this contribution and state how, when, and under what conditions this contribution will be paid to Union.
- c) Explain the method of calculating the actual capital contribution adjustment once the construction is completed and the actual costs are determined.

Project Economics

5. Reference: Prefiled Evidence / para. 20 / page 4 of 18

Preamble:

The evidence at paragraph 20 states the following: “The Rate 20 contract will be upgraded to a Rate 100 on November 1, 2014 when Goldcorp has all of its new gas burning generation facilities in place.”

Questions:

- a) Please explain why the Rate 20 contract will be changed to a Rate 100 contract and indicate what expected impact that will have in terms of the volumes and project economics.
- b) Please file the standard form of the Rate 20 and Rate 100 contract.

6. Reference: Prefiled Evidence / sched. 4 / page 1 - DCF Analysis Phase I

Preamble:

The spreadsheet shows the Profitability Index (PI) = 1.

April 11, 2011

Questions:

- a) Please provide all relevant assumptions underpinning the DCF analysis and file the supporting back-up schedules. At a minimum, please include the assumptions for gas volumes, gas prices, O&M levels, the discount rate, tax rates, municipal taxes, post construction costs (such as restoration or remediation) and the treatment of funds used during construction.
 - b) Please confirm that the DCF analysis covers only Phase I.
7. Reference: Prefiled Evidence / page 7 of 18 / para. 35
- a) Please report the current status of Union's Investment Portfolio profitability index (per the E.B.O. 188 Report of the Board, January 30, 1998).
 - b) Please report the current status of Union's Rolling Project Portfolio profitability index (per the E.B.O. 188 Report of the Board, January 30, 1998).
 - c) Please comment on how the Union's approach in the Red Lake analysis is consistent with the Board's E.B.O. 188 Report. If the approach diverges from the Report's guidance in any way please describe such divergence.
8. Reference: Prefiled Evidence / page 4 of 18 / para. 20

Preamble:

The evidence at paragraph 20 states the following: "Goldcorp will be signing two ten year contracts with Union for natural gas service in the first quarter of 2011. The first is a Rate 10 contract for the Cochenour Complex and the second is a Rate 20 contract for the Balmer complex."

Questions:

- a) Please file the executed gas service contracts on the public record, in redacted form if necessary.
- b) Please also file the complete (i.e., unredacted) versions of the contracts with the Board in confidence, in accordance with the Board's Practice Direction on Confidential Filings.

If contracts are not yet executed, please file in draft form and indicate when they will be executed and available for filing.

Protection of Union's Ratepayers

9. Reference: Prefiled Evidence / page 7 of 18 / para. 38

- a) Please provide the Board with documentary evidence, such as contracts between Goldcorp and Union, that the contribution will in fact be paid and that Union's existing ratepayers will not face any financial risk in the event of non-payment.
- b) Please describe the nature of any guarantees or security that may exist. Note that any commercially sensitive information maybe filed in confidence.

10. Reference: Prefiled Evidence / page 7 of 18 / para. 38

- a) Please describe any potential rate impact on Union's existing customers as a result of proceeding with Phase I. In particular, please include a discussion of any financial risk to Union's existing customers as a result of the project.
- b) Please describe what would happen in the event of a construction cost overrun. How is that handled and describe how it might impact existing Union customers?

The Proposed Phase II

11. Reference: Prefiled Evidence / page 1 of 18 / para. 4

- a) Please clarify whether Union is requesting a final Board Leave-to-Construct Order for Phase II at this time.
- b) If so, please indicate the criteria under section 90 of the OEB Act for the Phase II pipelines that would trigger the required leave to construct from the Board.

12. Reference: Prefiled Evidence / page 1 of 18 / para. 4

- a) Please explain why the finalization of the economics and the assessment of any contribution in aid for Phase II was deferred with respect to the current application.

- b) What period of time does Union consider appropriate to allow for the supporting financial arrangements for Phase II to be finalized?

13. Reference: Prefiled Evidence / page 2 and 5 of 18 / para. 9 and 27

Preamble:

The evidence at paragraph 9 states the following: "Construction of the Phase I facilities is expected to begin in May 2011. The timing of Phase II is dependent on receipt of the necessary funding." Paragraph 27 is Union's evidence on the customer attachment forecast for Phase II.

Questions:

- a) Based on current information, what is the expected capital cost of Phase II?
- b) Based on Union's forecast for customer attachments, what is the estimated capital contribution required to construct Phase II of the project.
- c) What are the financial underpinnings and criteria that must be met prior to construction of Phase II of the project?

14. Reference: Prefiled Evidence / page 1 of 18 / para. 4

- a) Please list all the key steps that are needed to move Phase II to a stage where construction can commence. Please include a discussion of financing and contributions in aid of construction, and a timeline of the key events.
- b) Please indicate the preliminary financing plan and anticipated timeline for obtaining the funding and construction start.

15. Reference: Prefiled Evidence / page 2 of 18 / para. 7

In the event that the Board approves the construction of Phase II of the project:

- a) What termination date for commencement of construction does Union consider appropriate?
- b) Please list any additional approvals Union must obtain to start and complete the Phase II construction.

16. Reference: Prefiled Evidence / page 6 of 18 / para. 32

Preamble:

Union stated that the capacity of the proposed facilities is 13,961 m³/h, and that it is proposed that Goldcorp will use 72% while the residents and small businesses in Red Lake will use 28% of the capacity in Phase II.

Questions:

- a) Is the project financing based on 72% to 28% volume split?
- b) Please confirm that there is no cross-subsidy between Phase I and Phase II financing.
- c) If there is a cross-subsidy please describe the financial arrangements between Goldcorp and other parties including the Municipality of Red Lake.

17. Reference: Prefiled Evidence / page 2 of 18 / para. 7

Preamble:

Union stated that Phase II of the Project will also have a PI=1.

Questions:

- a) Does Union consider Phase II of this project to be subject to the Board's rules for system expansion as established in the E.B.O. 188 Report of the Board, January 30, 1998? If so, under what circumstances would Union consider constructing Phase II if the estimated PI for the project is less than 1.0?

18. Reference: Prefiled Evidence / page 2 of 18 / para. 7

Please describe any potential rate impact on Union's existing customers as a result of proceeding with Phase II. In particular, please include a discussion of any financial risk to Union's existing customers as a result of the project.

Environmental Assessment for the Project

19. Reference: Prefiled Evidence / page 13 of 18 / para. 68 and Schedule 14

Preamble:

Union stated it would provide in the prefiled evidence its responses to concerns from agencies and interested parties when received as Schedule 14. The Board has not received any updates to the Schedule 14.

Question:

Please file with the Board copies of correspondence addressing Union's response to concerns raised by any party in respect to the Red Lake Project.

20. Reference: Prefiled Evidence / page 14 of 18 / para. 76

Preamble:

Union has stated that it signed a "General Relationship Agreement with Métis Nations of Ontario".

Questions:

- a) Please file a copy of this agreement with the Board.
- b) Explain the background and process that led to signing of this agreement.
- c) Summarize the contents of the agreement and indicate which projects are subject to the terms of the agreement between Union and Métis Nations of Ontario.

21. Reference: Prefiled Evidence / page 15 f 18 / para. 80 to 81

Preamble:

Issue of opportunities for employment and/or goods and services for First Nations and Métis during the Project was raised in Union's consultation with the First Nations. Union proposed to coordinate meetings in early 2011 before Project starts to explore these opportunities.

Question:

Please provide an update to the status and outcomes of communications with the First Nations and Métis in the Project area employment opportunities during the Project.

22. Reference: Prefiled Evidence / page 2 of 18 / para. 8 and Schedule 13
“Environmental Protection Plan”

Preamble:

Union stated that an Environmental Report for the “Project” prepared by Union include all pipelines within the “Project” area. However, the “Environmental Protection Plan” does not deal with Phase II pipelines or environmental assessment and mitigation.

Questions:

- a) Please confirm that the Phase II pipelines are not included in the environmental assessment and protection submitted in the prefiled evidence.
- b) If so, please explain if the pipeline distribution system expansion in Phase II will be subject to Environmental Screening requirements as set in the EBO 188.
- c) What will be Union’s approach to environmental screening for Phase II?
- d) What is the anticipated timing and format of Union’s reporting to the Board on Environmental Screening for Phase II? Please discuss based on the EBO 188 requirements.

Land and Landowner Matters

23. Reference: Prefiled Evidence / page 16 of 18 / para. 84 and page 17 para. 86 and Schedule 17 Form of Easement Agreement

Preamble:

Phase I will be located and constructed within road allowances and four sections will require easements on private land. Union submitted a form of easement agreement in Schedule 17. Pursuant to section 97 of the OEB Act the applicant “has offered or will offer to each owner of land affected by the approved route or location an agreement in a form approved by the Board.”

April 11, 2011

Question:

Please confirm that the form of the easement agreement provided in Schedule 17 has been offered or will be offered to all of the 4 private landowners from whom the easements are required.

24. Reference: Prefiled Evidence / page 17 of 18 / para. 88

Please explain the status of Union's negotiations for Agreements of Purchase and Sale for the lands needed for siting and construction of the four station sites.

Construction and Design Technical and Safety Requirements

25. Reference: Prefiled Evidence / page 10 of 18 / para. 52 to 55 and /page 11 of 18/ para. 56 to 59

- a) Please confirm that all design and pipe regulatory requirements for both Phase I and Phase II have been met by Union for the Red Lake Project.
- b) Please file a copy of correspondence with the TSSA which confirms that the TSSA has reviewed the design and pipe specifications for both Phase I and Phase II of the Project and that it has no outstanding concerns regarding Union's compliance with pipeline design, technical and safety requirements under TSSA's jurisdiction.

26. Reference: Prefiled Evidence Schedule 11, page 1

- a) Referring to the Pipeline Construction Schedule Phase 1 in Schedule 11, please provide detailed construction schedules showing the critical timeframe for completion of construction and operational start-up of the proposed facilities.
- b) Please discuss the impact on the project in-service date if construction is not fully completed in 2011 and must carry over to the 2012 construction season.
- c) What is Union's requested termination date for the commencement of construction of Phase I of the project?

27. Reference: Application for Leave to Construct EB-2011-0040 Schedule A and Prefiled Evidence Schedule 11

- a) Regarding Union's existing Bruce Lake lateral, please describe the operational history of the line noting any problems that may have been experienced with supply interruption, breakage, and similar problems.
- b) Please describe the construction and operational challenges associated with the geographic and climatic conditions in the area of the proposed pipeline.
- c) Please discuss the challenges of gas pipeline operation in the extreme cold winter weather often experienced in this region.

Leave to Construct -Standard Conditions of Approval

28. Please comment on the attached Board staff draft conditions of approval. Please note that these conditions are standard conditions and are a draft version subject to additions or changes depending Board staff's further review of the evidence in this case.

**Union Gas Limited
Leave to Construct Application
EB-2011-0040
Board Staff 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-2011-0040 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 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 Phase I 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 Phase I 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 Goldcorp including the method and the actual cost inputs used to determine the final amount of the contribution by the Goldcorp.

April 11, 2011

- 1.6 Within 15 months of the final Phase II 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 Phase II 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 including the method and the actual cost inputs used to determine the final amount of the contributions.

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 Other Approvals

- 4.1 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.