



**Market Hub Partners
Management Inc.**

May 14, 2008

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street
27th Floor
Toronto, Ontario
M4P 1E4

Dear Ms. Walli:

Re: Sarnia Airport Storage Pool Project Application
Market Hub Partners Management Inc. and AltaGas Ltd.
On behalf of Sarnia Airport Storage Pool Limited Partnership
EB-2008-0002

As directed in Procedural Order No. 1, issued by the Board on April 4, 2008, please find enclosed nine (9) print copies of its Argument-in-Chief with respect to EB-2008-0002, which is being filed by Market Hub Partners Management Inc. and AltaGas Ltd., on behalf of Sarnia Airport Storage Pool Limited Partnership, a limited partnership being formed under the laws of Ontario (the "Applicant") by respective subsidiaries of Market Hub Partners Management Inc. and AltaGas Ltd.

Any questions with respect to this Argument-in-Chief should be addressed to the undersigned or Mr. Laurie Smith of Bennett Jones LLC.

Yours truly,

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Encl.

c.c. Mr. Laurie Smith (Bennett Jones)
Intervenors
Mr. Ellis W. Manning, Jr.
Ms. Anna Muscedere
Mr. Brett King (SS Greenhouses)
Mr. Robert L. Williams
Mr. Peter and Ms. Andreina Bernardi
Mr. Edward Litrenta (George Murray Shipley Bell)

IN THE MATTER OF the Ontario Energy Board Act, 1998, S.O. 1998, c.15, Schedule B; and in particular sections 36.1(1), 38(1), 40(1), 90(1), thereof;

AND IN THE MATTER OF an Application by Market Hub Partners Management Inc. and AltaGas Ltd., on behalf of Sarnia Airport Storage Pool Limited Partnership, for an Order designating the area known as the Sarnia Airport Pool, in the Geographic City of Sarnia, County of Lambton, as a gas storage area;

AND IN THE MATTER OF an Application by Market Hub Partners Management Inc. and AltaGas Ltd., on behalf of Sarnia Airport Storage Pool Limited Partnership, for authority to inject gas into, store gas in and remove gas from the area designated as the Sarnia Airport Storage Pool, and to enter into and upon the lands in the said areas and use the said lands for such purposes;

AND IN THE MATTER OF an Application by Market Hub Partners Management Inc. and AltaGas Ltd., on behalf of Sarnia Airport Storage Pool Limited Partnership, to the Ministry of Natural Resources for a license to drill three wells and a license to re-enter and complete one well in the said area;

AND IN THE MATTER OF an Application by Market Hub Partners Management Inc. and AltaGas Ltd., on behalf of Sarnia Airport Storage Pool Limited Partnership, for an Order granting leave to construct natural gas pipelines in the City of Sarnia, in the County of Lambton, and in the County of Lambton.

**ARGUMENT-IN-CHIEF OF MARKET HUB PARTNERS
MANAGEMENT INC. AND ALTAGAS LTD. ON BEHALF OF SARNIA
AIRPORT STORAGE POOL LIMITED PARTNERSHIP**

1.0 INTRODUCTION

a. Procedural Matters

On December 28, 2007 Market Hub Partners Management Inc. (hereinafter referred to as “MHP Management Inc.”) and AltaGas Ltd., on behalf of Sarnia Airport Storage Pool Limited Partnership (hereinafter referred to as “SASP L.P.”), a limited partnership that is being formed under the laws of Ontario (hereinafter referred to as the “Applicant”) by respective subsidiaries of MHP Management Inc. and AltaGas Ltd., filed Applications with the Ontario Energy Board (hereinafter referred to as the “Board”) seeking to designate and develop a natural gas reservoir as a natural gas storage pool for service commencing in 2009 in order to meet market demand for underground natural gas storage.

The Applications requested approval for the following:

- An Order designating the area containing a gas reservoir located in Lots 10 and 11, Concession Gore; Lots 10, 11 and 12, Concession 8; Lots 29, 30, 31, 32, 33, and 34, Front Concession; Lots 1, 2, 3, 4 and 5, North Division, Registered Plan 7; and Lots 1, 2, 3 and 4, South Division, Registered Plan 7; and public road allowance of Michigan Line, in the City of Sarnia, in the County of Lambton, as a gas storage area (hereinafter referred to as the “Sarnia Airport Pool”);
- Authority to inject gas into, store gas in and remove gas from the Sarnia Airport Pool, and enter into and upon the lands in the area for such purposes;
- A favourable report from the Board to the Ministry of Natural Resources (hereinafter referred to as the “MNR”) to whom application has been made for licenses to drill three (3) injection/withdrawal wells and re-enter and complete one (1) existing well within the proposed designated storage area (hereinafter referred to as the “DSA”) of the Sarnia Airport Pool;
- An Order or Orders granting leave to construct approximately two (2) kilometres of NPS 12 storage gathering pipeline in the proposed DSA of the Sarnia Airport Pool (hereinafter referred to as the “storage gathering pipeline”) and approximately sixteen (16) kilometres of NPS 12 transmission pipeline (hereinafter referred to as the “transmission pipeline”) to connect the storage gathering pipeline to the Ontario natural gas pipeline network through an interconnection with the Union Gas Limited system; and
- Further or other related relief as the Applicant may request or as the Board may deem appropriate pursuant to the *Ontario Energy Board Act, 1998* (hereinafter referred to as the “Act”).

The Board released Procedural Order No. 1 dated April 4, 2008, confirming that it intends to consider evidence relating to the Applicant's request for the following approvals in the Sarnia Airport Gas Storage proceeding (EB-2008-0002):

- An Order designating the area containing a gas reservoir known as the Sarnia Airport Pool located in Lots 10 and 11, Concession Gore; Lots 10, 11 and 12, Concession 8; Lots 29, 30, 31, 32, 33, and 34, Front Concession; Lots 1, 2, 3, 4 and 5, North Division, Registered Plan 7; and Lots 1, 2, 3 and 4, South Division, Registered Plan 7; and public road allowance of Michigan Line, in the City of Sarnia, in the County of Lambton, as a gas storage area pursuant to section 36.1(1) of the Act;
- Authority to inject gas into, store gas in and remove gas from the Sarnia Airport Pool, pursuant to subsection 38(1) of the Act;
- A favourable report of the Board under subsection 40(1) of the Act, to the MNR to whom the Applicants have applied for a license to drill three (3) injection/withdrawal wells and to re-enter and complete one (1) existing well within the proposed Sarnia Airport Pool; and
- Leave to construct about 16 kilometres of transmission pipeline and about two (2) kilometres of storage gathering pipelines within the proposed Sarnia Airport Pool, pursuant to subsection 90(1) of the Act.

Accordingly, these are the only requests before the Board for consideration in this proceeding and the only matters addressed by the Applicant in argument-in-chief.¹ The Orders noted above along with a favourable report to the MNR are required in order for the Applicant to provide storage services from the Sarnia Airport Pool.

b. Timing Request

As detailed in its Applications, operation of the Sarnia Airport Storage Pool is scheduled to begin as early as April 2009, and no later than June 1, 2009 in order to allow the Applicant to inject the required cushion gas and fully utilize the working capacity of the Sarnia Airport Pool in the first year of operation. In order to meet this in-service target date, a number of activities related to project development must commence shortly or, in some cases, coincidentally, as is reflected in the project schedule (Schedule 6-2). In consideration of the project timetable, and consistent with its Applications, the Applicant respectfully requests that the Board issue its

approval in June 2008. The Applicant submits that the evidence presented to the Board during this proceeding is sufficient to allow the Board to provide the Applicant with a timely decision and/or Orders.

2.0 THE APPLICANT

Sarnia Airport Storage Pool Limited Partnership

SASP L.P. will be a limited partnership formed under the laws of Ontario by respective subsidiaries of MHP Management Inc. and AltaGas Ltd. for the purposes of developing, constructing, owning, operating, marketing and maintaining the Sarnia Airport Pool. Formal partnership documents are currently being drafted and are expected to be executed in the second quarter of 2008.

The general partner of SASP L.P. will be Sarnia Airport Storage Pool Management Inc. (hereinafter referred to as “SASP Management Inc.”), a corporation formed under the federal laws of Canada, which will be owned 50% by MHP Management Inc. and 50% by AltaGas Ltd.

The limited partners of SASP L.P. will be Market Hub Partners Canada L.P. (hereinafter referred to as “MHP Canada”) and AltaGas Operating Partnership (hereinafter referred to as “AOP”). Each limited partner will have a 49.995% limited partner interest in SASP L.P. while SASP Management Inc. will hold the residual 0.01% general partner interest. Development of the Sarnia Airport Pool will be funded by the limited partners of SASP L.P. (Pre-filed Evidence, pp. 9-10; Schedule 1-1)

Market Hub Partners

Spectra Energy, corporate parent of MHP Management Inc., is one of North America’s premier natural gas infrastructure companies operating approximately 28,000 kilometres (17,000 miles) of transmission pipeline and approximately 265 Bcf of working gas storage, which includes over 225 Bcf of working gas capacity in depleted reservoirs, including approximately 150 Bcf operated by Union Gas Limited (hereinafter referred to as “Union Gas”) in Ontario as well as approximately 75 Bcf within the Texas Eastern Transmission system in Maryland and

¹ References herein are to Pre-filed Evidence and Interrogatory Responses filed in the Sarnia Airport Pool proceeding (EB-2008-0002) unless otherwise indicated.

Pennsylvania. The Spectra Energy natural gas underground storage portfolio also includes over 40 Bcf of working gas capacity in salt caverns and bedded salt formations, including the Egan facility located in Louisiana, the Moss Bluff facility located in Texas and the Saltville Gas Storage facility located in Virginia. Spectra Energy, through Westcoast Energy Inc. (hereinafter referred to as “WEI”) and its predecessor companies, has operated safe and reliable natural gas systems in Ontario for over 90 years. Spectra Energy and its subsidiaries owned assets totaling more than \$22 billion U.S. as of September 30, 2007.

MHP Management Inc. is the general partner of MHP Canada and, as part of the Spectra Energy natural gas underground storage portfolio owns and operates the St. Clair Pool, which brought 1.1 Bcf of natural gas storage service to the Ontario market in June 2007. Through storage development and exploration activities, MHP Canada, and its predecessors, have made significant investments in Ontario over the past decade, and as a result of recent changes in the regulatory framework, continues to make significant investments to develop natural gas storage in Ontario. (Pre-filed Evidence, pp. 10-12; Schedule 2-1)

AltaGas

AltaGas Income Trust is an unincorporated open-ended investment trust governed by the laws of Alberta and created pursuant to a Declaration of Trust dated March 26, 2004. AltaGas Income Trust indirectly holds all of the assets, liabilities and businesses formerly owned by AltaGas Services Inc. AltaGas Services Inc. was incorporated on August 30, 1993 under the Canadian Business Corporation Act and commenced operations on April 1, 1994. Effective May 1, 2004 the business of AltaGas Services Inc. was reorganized and holders of common shares of AltaGas Services Inc. received AltaGas Income Trust units and/or Exchangeable units in exchange for their common shares. AltaGas Services Inc. became an indirect subsidiary of AltaGas Income Trust and was amalgamated to form AltaGas Ltd. AltaGas Ltd. then conveyed most of its assets to AOP in exchange for a partnership interest in AOP.

AltaGas Income Trust, headquartered in Calgary, Alberta, is one of Canada’s largest and fastest growing integrated energy infrastructure and services organizations. AltaGas Income Trust creates value by growing and optimizing assets and services across the energy value chain to serve North America’s energy demand. Since 1994, AltaGas Income Trust has expanded its

business to include natural gas gathering, processing and transmission, extraction of ethane and natural gas liquids, power generation, marketing of natural gas and natural gas liquids, as well as retail energy services to commercial, industrial and institutional end-users across Canada. AltaGas Income Trust has a market capitalization of approximately \$1.5 billion and in 2006 had revenues of \$1.4 billion. (Pre-filed Evidence, pp. 13-15; Schedule 3-1)

3.0 THE PROJECT AND BUSINESS PLAN

The Sarnia Airport Storage Pool project is designed to develop and operate approximately 149,000 10^3m^3 (5.26 Bcf) of natural gas working storage space to meet growing demand for natural gas services (hereinafter referred to as the “Project”). Proposed facilities include the drilling of three new injection/withdrawal wells (hereinafter referred to as "I/W wells"), re-entering and completion of one existing well, and the construction of approximately 18 kilometres of NPS 12 natural gas pipeline, along with associated surface facilities (Pre-filed Evidence, p. 5).

Need

The evidence clearly demonstrates a need for the storage services that the Sarnia Airport Pool will offer the marketplace. As detailed in Section 4 of the Pre-filed Evidence, storage expansion is necessary to efficiently serve growing natural gas demand in eastern Canada and the U.S. Northeast markets, and the demand for storage over the short term and long term exceeds available supply (Pre-filed Evidence, p. 15).

The Board’s view of the benefits of further storage development is evidenced in its Decision With Reasons, EB-2005-0551, Natural Gas Electricity Interface Review, dated November 7, 2006 (hereinafter referred to as the “NGEIR Decision”):

The Board also agrees that further development of storage would benefit Ontario consumers in terms of reduced price volatility, enhanced security of supply and an overall enhanced competitive market at Dawn.²

² NGEIR Decision, at p. 50.

Services

The Applicant intends to offer storage services at market-determined rates consistent with the regulatory framework set out in the NGEIR Decision. The Applicant will have no captive customers and will be fully at risk for the recovery of its costs such that Ontario consumers will not bear the risks associated with the Sarnia Airport Pool development. The Applicant is confident that there will be sufficient market demand for the storage services provided by the Sarnia Airport Pool (Pre-filed Evidence, p. 17).

Transportation

Based on the location of the Sarnia Airport Pool, an interconnection with the Ontario natural gas pipeline network is necessary to transport natural gas between the Sarnia Airport Pool and Dawn. The Sarnia Airport Pool is in the vicinity of high pressure natural gas facilities owned by Union Gas, and this proximity to existing Union Gas transportation facilities led to the commencement of negotiations for an interconnection of the Sarnia Airport Pool to the Union Gas pipeline network. Discussions have commenced regarding transportation and compression services with Union Gas, which will be facilitated through an M16 Transportation Contract (Pre-filed Evidence, p. 18).

Aboriginal Consultation

The Applicant initiated contact with Aamjiwnaang First Nation, Walpole Island First Nation and Chippewas of Kettle & Stony Point First Nations with respect to the Project in February 2005 and has provided written correspondence to these Aboriginal groups up to and including December 2007.³ Consultation with the Canadian Department of Indian and Northern Affairs indicated that the proposed facilities are not located in areas of Aboriginal land claims and no other Aboriginal groups were identified that may be impacted. Consultations undertaken to date (i) have not identified any potential impacts upon treaty rights, any filed and outstanding claims or litigation concerning treaty rights, treaty land entitlement or Aboriginal title or rights; and (ii) have not identified any issues or concerns in respect of the Project that would require

³ In accordance with the Letter of Direction dated February 14, 2008, Notice of Application was served to the Aboriginal Groups on February 19, 2008.

specific mitigation or accommodation. (Pre-filed Evidence, pp. 40-41; Schedule 8-3-B; IR OEB-8)

Project Schedule

The Applicant is targeting an in-service date as early as April 2009, and no later than June 1, 2009, in order to inject the required cushion gas and fully utilize the working capacity in the first year of operation. Well drilling is scheduled to begin as early as September 2008 and can start no later than January 2009 in order to achieve the in-service target. Transmission pipeline construction is proposed to start in January 2009 and end in March 2009. Construction of the storage gathering pipelines, as well as any portion of the transmission pipeline that is not constructed in January through March 2009, is proposed to commence in April 2009, as soon as soil conditions allow. In order to meet the in-service date, pipeline materials need to be ordered immediately and casing and wellhead materials as early as June 2008. A development schedule for the Project is included as Schedule 6-2. (Pre-filed Evidence, p. 18)

Financing

The partners of SASP L.P. have financed development and operations to date internally and it is expected that the partners of SASP L.P. will continue to do so. SASP L.P., through its limited partners MHP Canada and AOP, will have the commitment and financial ability to develop the Sarnia Airport Pool. (Pre-filed Evidence, pp. 18-19)

Operation and Maintenance

The Applicant will enter into a Management Services Agreement (hereinafter referred to as the “MSA”) with MHP Management Inc. or its affiliate (hereinafter referred to as the “Manager”) that will provide authorization for the Manager to carry on assigned business on behalf of SASP Management Inc. with respect to development and construction of the Project and operation and maintenance of the Sarnia Airport Pool. The Manager will contract with a qualified third party Ontario storage operator, Union Gas, for operation and maintenance activities, including the provision of an Emergency Response Plan and Operation and Maintenance Procedures. (Pre-filed Evidence, p.19)

4.0 STORAGE DEVELOPMENT APPROVALS

In its NGEIR Decision, the Board confirmed that a primary objective is to facilitate the rational development and safe operation of natural gas storage⁴. The Board exercises its authority under the Act to designate a gas storage area, to issue authorization to operate a designated storage area, to issue a report to the Minister of Natural Resources on application for a storage well drilling licence, and to grant leave to construct hydrocarbon pipelines. The MNR has authority under the *Oil, Gas and Salt Resources Act* (hereinafter referred to as the “OGSRA”) regarding drilling of wells and the safety and technical aspects and operations of storage pool developments within designated storage areas, including responsibility for ensuring compliance with the OGSRA and the Oil, Gas and Salt Resources of Ontario - Provincial Operating Standards, Version 2.0 (hereinafter referred to as the “Provincial Operating Standards”).

The Applicant respectfully submits that the submissions herein address all of the Board’s considerations for the present Applications and satisfy the Board’s objectives for Ontario storage development. The Sarnia Airport Pool will provide a welcome increment of storage capacity for the Ontario market and its development in the manner proposed will further the overall public interest.

The Applicant herein provides a detailed argument that addresses the criteria typically applied by the Board in assessing independent storage provider applications for storage development approvals. The following sections are organized in the four main subject areas corresponding with the Orders requested by the Applicant in this proceeding.

a. Designation as a Gas Storage Area

The Applicant is requesting an Order from the Board designating the Sarnia Airport Pool as a gas storage area. In reviewing an application to designate a storage area, the Board typically considers two main questions:

- Is the underlying geological formation appropriate for storage operations?

⁴ NGEIR Decision, at p. 44.

- Is the tract of land to be designated appropriately sized to provide for safe operation of the storage pool?⁵

The Applicant's evidence with respect to the designation of the storage area is primarily contained within Section 5 of the Pre-filed Evidence, and related schedules, and was further addressed in a letter by the Applicant to the Board dated March 25, 2008.

Underlying Geological Formation

The Sarnia Airport Pool is a partly dolomitized pinnacle reef of the Guelph-Lockport Group located within the Middle Silurian Pinnacle Reef Belt on the southeastern rim of the intracratonic Michigan Basin. The geometry and internal characteristics of the Sarnia Airport Pool and adjacent formations was interpreted from the data for the six existing wells within or in proximity to the reservoir and the 3D and 2D seismic interpretation. Production records were used to establish the pressure decline relationship for the reservoir and at the proposed maximum operating pressure, the working gas capacity of the reservoir is estimated to be 149,000 10^3m^3 (5.26 Bcf). The A2 Salt, A1 Carbonate and A1 Anhydrite Units provide the lateral seal and the A2 Anhydrite, A2 Shale and A2 Carbonate Units drape over the reservoir providing an effective caprock seal 9 metres to 12.3 metres thick (Pre-filed Evidence, pp. 24-26). Reservoir integrity has been established through the results of the threshold pressure testing of the caprock cores, micro-fracture test results in the A2 Anhydrite, well control, 3D seismic analysis, production decline analysis, shut-in pressure data, and analysis of the discovery pressure and hydrostatic gradients, which collectively demonstrate that the geologic structure is a sealed container and that pressure containment exceeds the proposed maximum operating pressure (Pre-filed Evidence, pp. 26-29; IR OEB-7). Therefore, the Applicant submits that the Sarnia Airport Pool reservoir is a viable candidate for the underground storage of natural gas.

Natural gas production and well records show that the reservoir has suitable porosity and permeability characteristics. Drilling results, petrophysical logs and 3D seismic inversion were used to establish reservoir characteristics such as lithology, porosity and water saturation. During the drilling of Airport No. 2, Sarnia 8-33-FLH, a loss of circulation zone indicative of high permeability was encountered at 764 mKB. Results from the logging identified a highly

⁵ EB-2006-0162 to 0167, Reason for the December 22, 2006 Decision of the Board, February 13, 2007 ("St. Clair Pool Decision"), at p. 5.

fractured zone from 763 mKB to 767 mKB. Throughout the dolomitized portion of the reef, there is good porosity ranging from 2.7% to 32%, including intercrystalline, vuggy and fracture porosity. In addition, the core analysis confirmed high permeability in excess of 600 mD (Schedule 5-16). Results from Airport No.1, Sarnia 8-33-FLH, logs indicate that the target zone near the base of the well has excellent porosity in the range of 15% to 25%. Based on the above results, the Applicant is confident that the proposed I/W wells will be able to cycle the entire working inventory on an annual basis. (Pre-filed Evidence, pp. 25-26)

Footprint of the DSA

A DSA is established to protect a storage reservoir from future third party drilling and other subsurface activities. A DSA should represent a reasonable balance between the protection of the storage reservoir from other subsurface activities and the retention of as much land as possible for future oil and gas exploration and drilling. Typically, a DSA is established to provide a minimum buffer zone of 40 metres to 60 metres beyond the maximum probable extent of the A1 Carbonate porosity. The MNR requests that drilling tract boundaries be used whenever possible in establishing a DSA.⁶

Drilling results, well data and the 3D seismic interpretation were used to estimate the maximum probable extent of reef associated A1 Carbonate porosity. Base-of-gas was established as shown in Schedules 5-10 and 5-17. The boundary of the proposed DSA has been established to incorporate entire MNR drilling tracts, to provide adequate protection from third party drilling and other subsurface activities, and to retain as much land as possible for future oil and gas exploration and drilling. The proposed DSA is larger than the existing production unit and provides a minimum buffer distance of 85 metres to the maximum probable extent of reef associated A1 Carbonate porosity (Schedule 5-17). The proposed DSA for the Sarnia Airport Pool comprises 317 hectares (784 acres) in the City of Sarnia, County of Lambton (Pre-filed Evidence, page 29). The Applicant submits that the proposed DSA boundary effectively delineates and protects the geological formation against damage or interference caused by the drilling of oil or gas wells by third parties. As set out in the "Record of Technical Data Reviewed for a Proposed Designated Gas Storage Area" (Schedule 5-19), MNR staff is in agreement with this assessment.

The Applicant, or its affiliates, holds all P&NG Leases within the production unit area and holds P&NG Leases for all properties within the proposed Sarnia Airport Pool DSA, with the exception of the property owned by Ms. Frances Tavares. The Applicant, or its affiliates, also holds the Gas Storage Leases for all properties within the DSA, with the exception of the property owned by Ms. Frances Tavares and the City of Sarnia road allowances. The Applicant plans to continue attempting to secure these leases until the leases are secured and, in the event that the Board designates the storage area prior to securing these leases, offers of compensation would be provided to Ms. Frances Tavares and the City of Sarnia on the same terms as other property and mineral right owners in the Sarnia Airport Pool DSA (IR OEB-5). All payments required under the P&NG and Gas Storage Leases held by the Applicant, or its affiliates, have been made and, as a result, all agreements are in good standing (Pre-filed Evidence, p. 45).

The Applicant submits that the evidence is clear that the Sarnia Airport Pool, and its underlying geological formations, meets the technical qualifications for natural gas storage and that the proposed boundary of the DSA is appropriately sized and positioned.⁷ The Applicant respectfully submits therefore, that the Board should grant the requested Order designating the Sarnia Airport Pool as a natural gas storage area.

b. Licence to Drill a Gas Well

MHP Canada, as the current operator of the pool, has applied to the MNR for permission to drill three natural gas storage horizontal I/W wells within the proposed DSA for the Sarnia Airport Pool, consisting of Airport No. 1 (Horizontal 1) Sarnia 8-32-FLH (hereinafter referred to as “Air.1.H1”), Airport No. 3 (Horizontal 1) Sarnia 2-11-VIII (hereinafter referred to as “Air.3”), and Airport No. 4 (Horizontal 1) Sarnia 2-11-VIII (hereinafter referred to as “Air.4”). In addition, MHP Canada as the current operator of the pool has applied to the MNR for permission to re-enter and complete one natural gas vertical observation well within the proposed DSA, Bluewater True Sarnia 2-11-VIII (hereinafter referred to as “BTS 2-11-VIII”). All licence applications will be amended or transferred to SASP L.P. prior to drilling. These applications have been referred to the Board for review pursuant to section 40 of the Act.

⁶ March 25, 2008 letter to Board.

⁷ The Metes and Bounds Description for the Sarnia Airport Pool is provided as Schedule A of the Application.

In considering an application for a well drilling license, typically, the Board's review under section 40 of the Act includes the geological evidence related to the well location, the proposed drilling program, the technical capability of an applicant to conduct the drilling in accordance with applicable standards and codes, and environmental and landowner matters.⁸

Well Drilling Locations, Drilling Program and Applicable Codes and Standards

The proposed locations for wells Air.3 and Air.4 were selected based on data from all existing wells within the reservoir, discussions with the impacted property owners and the 3D seismic interpretation. The setback distances for the proposed well drilling and proposed permanent wellhead assemblies comply with MNR and Transport Canada regulations regarding proximity to airport facilities, road allowances, structures and municipal drains (IR OEB-7). The area surrounding the Sarnia Airport Pool is largely zoned rural/agricultural and the City of Sarnia has confirmed that there are no plans to change the zoning or to develop this area for other uses (IR OEB-7). The horizontal paths for wells Air.1.H1, Air.3 and Air.4 were designed to maximize intersection with porosity/permeability targets. The proposed surface locations and well paths are described in the MNR Applications for a Well License (Form 1) (Schedule 6-3).

All wells will be drilled and constructed to comply with Standard CAN/CSA Z341.1-06, the OGSRA and its regulations, the Provincial Operating Standards and the *Occupational Health and Safety Act* (Pre-filed Evidence, p. 32). A drilling program has been filed in support of the drilling licence application (Schedule 6-4) containing detailed drilling procedures and casing specifications for AIR.1.H1, AIR.3 and AIR.4. A well completion and workover program has been filed in support of the licence application (Schedule 6-6) containing detailed drilling procedures and casing specifications for BTS 2-11-VIII. The drilling programs include the geological prognosis, reporting, the safety procedures required by the *Occupational Health and Safety Act* and the OGSRA, its regulations and the Provincial Operating Standards, and is specifically designed to protect groundwater resources (Pre-filed Evidence, pp. 31-32). Following set up of the drill rig, and prior to drilling, measurements and calculations will be completed to confirm that the MNR and Transport Canada setback requirements are being met (Pre-filed Evidence, p. 33).

⁸ St. Clair Pool Decision, at p. 15.

Landowner Matters

The proposed surface locations for the wells, along with the location of the permanent access roads and well pads, have been discussed with and accepted by the property owners as evidenced by the signed Letters of Acknowledgement (Schedule 9-9; Pre-filed Evidence, pp. 46-48). The Applicant, or its affiliates, holds 100% of the active Gas Storage Leases and P&NG Leases for the properties in the production unit area, which provide the surface rights needed to drill the proposed wells and construct facilities on the property. Prior to construction, a representative will meet with each property owner impacted by the well drilling to discuss any site specific requirements. The Applicant plans on securing permanent easement rights for the well pads and access roads following construction in accordance with the Letters of Acknowledgement.

Environmental Matters

The Environmental and Socio-Economic Impact Assessment Report (hereinafter referred to as the "ER") for the Project and subsequent update letters (Schedule 8-1), conclude that the environmental and socio-economic effects associated with the well drilling and construction of the associated surface facilities will not be significant when the site specific mitigation measures recommended in the ER are implemented (Pre-filed Evidence, p. 42). The Applicant has provided the ER to Ontario Pipeline Coordinating Committee (hereinafter referred to as the "OPCC") members and addressed any comments (Schedule 8-3). The Applicant submits that the ER makes appropriate recommendations for environmental and socio-economic protection and commits to employing the procedures and mitigations measures during the construction activities. The Applicant has committed to implementing an environmental inspection program to monitor construction activities, which includes a water well monitoring program that would sample appropriate water wells prior to drilling, following drilling and following the first storage cycle, and as recommended by the project hydrogeologist, and a post-construction review of the Project area in the year of construction and the year following construction (Pre-filed Evidence, p. 43; Schedule 8-4).

The Applicant submits that the well paths, determined on the basis of data from all existing wells within the proposed DSA and the seismic interpretation, are engineered properly and are technically feasible, and that the evidence clearly establishes the technical expertise and

capability of the Applicant to undertake the planned well drilling and associated construction work. Furthermore, the evidence is clear that property owners have been consulted and have provided their consent with respect to the proposed well and surface facility locations, and that the environmental and socio-economic impacts associated with the well drilling and construction of the surface facilities will not be significant. Accordingly, the Applicant respectfully requests that the Board recommend to the Minister of Natural Resources approval of the Application for the requested drilling licences.

c. Authorization to Inject, Store and Withdraw

The Applicant has applied to the Board for an Order authorizing the injection, storage and withdrawal of natural gas in relation to the Sarnia Airport Pool. In reviewing applications for authority to inject, store and remove gas, the Board typically considers the following:

- Are appropriate safety requirements for proposed injection/withdrawal activities going to be ensured?
- Have the proposed storage wells been appropriately designed and are construction and maintenance plans in order?
- Will all relevant codes and standards be followed?
- Is the proposed maximum operating pressure safe and prudent?
- What are the potential impacts of injection/withdrawal activities?
- Are the proposed mitigation programs appropriate?
- Is the applicant a capable prospective storage operator in terms of technical and financial capabilities to develop and operate the proposed storage facilities?
- Is the applicant appropriately accountable for losses and damages occasioned by its activities?⁹

Safety; Design, Construction and Maintenance Plans; Applicable Codes and Standards

The Applicant has filed convincing evidence with respect to its ability to undertake the proposed storage operation in a safe manner and the Applicant recognizes that it is critical that the Project be developed safely, with due regard for the environment. SASP L.P. will be the

operator of the Sarnia Airport Pool facilities under the OGSRA. SASP Management Inc. will enter into an MSA with the Manager that will provide the authorization for the Manager to carry on assigned business on behalf of SASP L.P. with respect to development, construction, operation and maintenance for the Sarnia Airport Pool. The Manager will subcontract operations and maintenance services to Union Gas, an experienced Ontario storage operator, through Service Assignments and will be responsible for providing Operations and Maintenance Procedures and an Emergency Response Plan. Aecon Utility Engineering was engaged to independently review the Union Gas Operation and Maintenance Procedures and Emergency Response Plan, which were found to be compliant with the relevant standards and applicable to the Sarnia Airport Pool. (Pre-filed Evidence, pp. 38-39; IR OEB-4)

The Applicant will protect the integrity of the reservoir and ensure safe operation of the Sarnia Airport Pool by requiring its operations and maintenance contractor(s) to comply with all applicable laws, regulations and operating standards, including the OGSRA and its regulations, the Provincial Operating Standards, Standard CAN/CSA Z341.1-06, the *Occupational Health and Safety Act*, and Ontario Regulation 210/01 for Gas Pipeline Systems as well as with the Emergency Response Plan and Operations and Maintenance Procedures.

Potential Impacts of Injection and Withdrawal Activities; Maximum Operating Pressure

The Applicant has completed a detailed assessment of the potential impacts of the proposed storage operation on neighbouring activities to satisfy the requirements of Standard CAN/CSA Z341.1-06 (Schedule 5-20). The assessment concludes that there is minimal risk regarding the potential migration of natural gas between the Sarnia Airport Pool and any known existing or abandoned wells within one kilometer; that similarly there is no risk regarding the potential migration of natural gas between the Sarnia Airport Pool and subsurface operations within a five kilometre radius, given that there are no such operations; and that all of the existing wells penetrating the storage zone, which will be used for storage pool operations, will be assessed and upgraded as necessary to ensure that the requirements of Standard CAN/CSA Z341.1-06 are met (Pre-filed Evidence, pp. 30-31).

⁹ St. Clair Pool Decision, at p. 8.

More specifically, the assessment concludes that the Sarnia Airport Pool reservoir is a sealed container. Well control and the 3D seismic interpretation show that the A2 Salt, A1 Carbonate and A1 Anhydrite Units provide the lateral seal and the A2 Anhydrite, A2 Shale and A2 Carbonate Units drape over the reservoir providing an effective caprock seal 9 metres to 12.3 metres thick (Pre-filed Evidence, pp. 24-26). Threshold pressure testing of two caprock cores, which models the ability of the caprock to contain gas, demonstrates that natural gas could not penetrate the caprock in excess of 18,000 kPa (IR OEB-3). That threshold pressure is 65% higher than the proposed maximum operating pressure. The sloping linear relationship between P/Z and inventory as well as the relationship between the discovery pressure gradient (5.6 kPa/m), the hydrostatic gradient (9.8 kPa/m) and the pressure history during and post-production further confirm the presence of a sealed container. (Pre-filed Evidence, pp. 26-29)

With respect to the maximum operating pressure, Clause 7.6.2 of Standard CAN/CSA Z341.1-06 states that the maximum operating pressure shall not exceed 80% of the fracture pressure of the caprock formation. Micro-fracture testing was completed on well Airport No. 1, Sarnia 8-32-FLH, to get local fracture pressure data. Based on the 24.43 kPa/m gradient produced by the micro-fracture testing, the maximum operating pressure of the Sarnia Airport Pool in accordance with Standard CAN/CSA Z341.1-06 is limited to 13,165 kPa. This pressure significantly exceeds the planned maximum operating pressure of 10,685 kPa and therefore the proposed maximum operating pressure satisfied the requirements of Clause 7.6.2 of Standard CAN/CSA Z341.1-06. (IR OEB-3; Pre-filed Evidence, p. 27)

To ensure that any integrity issues are identified in a timely manner a Reservoir Monitoring Program has been developed for the Sarnia Airport Pool (Schedule 7-1). All wells and facilities will be designed, constructed, operated, maintained and abandoned in accordance with the OGSRA, its regulations and the Provincial Operating Standards.

Environmental Mitigation

The ER for the Sarnia Airport Pool prepared by Stantec Consulting Ltd., completed in August 2005 and updated in April 2008, describes the process used to identify and evaluate route alternatives for the proposed transmission pipeline, identifies potential environmental and socio-economic impacts of constructing and operating a pipeline along a “preferred route”, and

identifies potential environmental and socio-economic impacts of constructing and operating the proposed storage gathering pipeline system and well facilities. The ER concludes that the location of the transmission pipeline minimizes the potential for environmental effects and that the environmental and socio-economic mitigation measures proposed, in conjunction with standard construction and well drilling programs, will ensure that the construction and operation of the Sarnia Airport Pool facilities will result in minimal impact to the natural and socio-economic environment and negligible long-term effects. (Pre-filed Evidence, p. 39; Schedules 6-4, 6-6, 6-11 and 8-1)

The Applicant will implement the mitigation measures recommended in the ER as well any mitigation measures prescribed in the permit approvals and licences. In addition, mitigation measures will be developed in consultation with individual property owners to protect site-specific features (IR OEB-10). The Spectra Energy Construction Specifications current at the time of construction, which includes standard environmental mitigation measures, will be followed. (Pre-filed Evidence, pp. 41-42)

The Applicant submits that the proposed mitigation programs are appropriate for the Project.

Landowner Matters

In accordance with the Gas Storage Leases, the Applicant will offer to all parties with a participating interest in the gas, including parties with overriding royalty interests in the P&NG Leases, will be offered a one-time payment for royalties on the remaining recoverable volume of gas reserves (hereinafter referred to as “residual gas”) to a reservoir pressure of 50 psia. The remaining gas-in-place will then be used as cushion gas for the storage operations. The proposed residual gas payment for each interest owner will be calculated as set out in the Gas Storage Leases, which describes the valuation methodology. The Voluntary Unit Operating Agreements, as amended, describe the allocation of these payments to the individual interest owners within the production unit area. As a result, payments will be made to the interest owners as if the commercially recoverable gas was produced had the Applicant not elected to convert the reservoir to natural gas storage. (Pre-filed Evidence, pp. 45-46)

An annual gas storage compensation package will be offered for P&NG Leases and Gas Storage Leases as well as any wells, access roads and outside acreage competitive with other

compensation programs currently offered by the other established storage operators in Ontario (Pre-filed Evidence, p. 46). If the Applicant does not obtain all outstanding Gas Storage Lease rights prior to designation, offers of compensation would be provided to those property and mineral interest owners on the same terms as other property and mineral right owners within the Sarnia Airport Pool DSA (IR OEB-5).

Losses and Damages; Financial Ability

An independent party with expertise in adequacy of insurance coverage for environmental and other risks as well as potential impacts of gas storage operations in southwestern Ontario has been retained to prepare an Insurance Study. The Insurance Study scope will reflect the terms of the condition of approval noted in IR OEB-6 and should be complete in June or July 2008. The Applicant intends to acquire insurance in the types and amounts recommended in the Insurance Study and to maintain that insurance in full force and effect, which will include, but not be limited to, liability and pollution coverage.

With respect to whether the storage development and operations are funded to sustain long-term operations, the Board has before it convincing evidence respecting the Applicant's access to capital to support the development of the Sarnia Airport Pool.

As a subsidiary of WEI, MHP Canada will have access to WEI's sources of financing, which include operating lines of credit in excess of \$600 million with commercial banks and non-convertible debt securities or preferred shares up to an aggregate initial offering price of \$500 million. The operating lines of credit enable WEI, its subsidiaries and joint ventures, to borrow directly from the banks, to issue bankers' acceptances and to support commercial paper programs. WEI, its subsidiaries and joint ventures make use of short-term indebtedness to finance working capital and to provide interim financing in advance of long-term debt or equity issues. To date, MHP Canada has financed operations internally and expects that it will continue to do so with respect to its Sarnia Airport Pool obligations. (Pre-filed Evidence, p. 12)

AltaGas Income Trust, including AltaGas Ltd. and AltaGas Operating Partnership, has cash flow and access to numerous sources of financing, which will be available for the development of the Sarnia Airport Pool. AltaGas Income Trust has investment grade credit ratings with

DBRS Limited and Standard & Poor's. AltaGas Income Trust has a market capitalization of \$1.5 billion and in 2006 had revenues of \$1.4 billion. (Pre-filed Evidence, p. 15)

The Applicant's proposals for the Sarnia Airport Pool are appropriate and in the public interest. Accordingly, the Applicant respectfully submits that the Board has reviewed sufficient evidence to support the granting of an Order authorizing the Applicant to inject, store, and withdraw gas in the Sarnia Airport Pool.

d. Leave to Construct

The Applicant has applied to the Board for Leave to Construct transmission and gathering pipelines, and associated facilities, within the proposed Sarnia Airport Pool. Specifically proposed is approximately 2 kilometres of NPS 12 natural gas storage gathering pipeline and approximately 16 kilometres of NPS 12 natural gas transmission pipeline, including an interconnection with the Ontario natural gas pipeline network through the existing Union Gas system. The proposed facilities are described in Section 6 of the Pre-filed Evidence.

In considering Leave to Construct applications, the Board typically reviews the need for the facilities, appropriateness of design specifications, environmental and construction matters, and landowner related matters.¹⁰

Need for the Facilities

The pipelines are required to connect the Sarnia Airport Pool reservoir to the existing Union Gas system in order to access and utilize the available working capacity. The pipelines will provide means of transporting natural gas from the Sarnia Airport Pool to the market and vice versa. The proposed facilities have been designed to allow full utilization of the working capacity of the Sarnia Airport Pool on an annual basis (Pre-filed Evidence, p. 31).

Appropriateness of Design Specifications

The storage gathering and transmission pipelines, and associated facilities, have been designed for a maximum operating pressure of 12,065 kPag in accordance with Ontario Regulation 210/01 for Gas Pipeline Systems, which is the regulation governing the installation of

¹⁰ St. Clair Pool Decision, at pp. 17-18.

pipelines in the Province of Ontario, and to minimize the pressure losses in the pipeline given the peak flows expected for withdrawal and the length of the proposed pipelines (Pre-filed Evidence, pp. 34-36).

Environmental and Construction Matters

During pipeline construction, the Applicant has committed to comply with all the mitigation measures proposed in the ER as well as those mutually developed with individual property owners to protect the site-specific features where facilities are to be constructed. All pipelines will be constructed in the manner recommended and described in the Board document "Environmental Guidelines for Locating, Constructing and Operating Hydrocarbon Pipelines in Ontario (May 2003)". As well, the Spectra Energy Transmission construction specifications, in effect at the time of construction, will be followed (Pre-filed Evidence, p. 37; Schedule 6-11). The Applicant will implement a tree replacement program for woodlot acreage removed during construction of the facilities. The ER concludes that the expected degree of environmental disruption that will accompany the construction of the proposed facilities is minimal and acceptable (Schedule 8-1). The Applicant will undertake a post-construction review of the areas impacted by construction and prepare and submit to the OPCC, within 12 months of the completion of construction, a report outlining the effectiveness of the mitigation measures implemented during construction, any remaining restoration required in the construction area and a summary of landowner complaints received, if any (Pre-filed Evidence, p. 38).

Landowner Related Matters

The proposed storage gathering pipelines will be located entirely within the DSA (Pre-filed Evidence, p. 33; Schedule 6-6). The proposed transmission pipeline for the Sarnia Airport Pool will be located within easement within Lot 10, Concession Gore, City of Sarnia (former Township of Sarnia), County of Lambton with the remainder being located within road allowance from Lot 2, N.D., Registered Plan 7, City of Sarnia (former Township of Sarnia) to the interconnection to the Ontario pipeline network through the Union Gas system in Lot 1, Concession 1, Township of St. Clair (formerly Township of Moore).

All necessary easement agreements for the transmission pipeline have been acquired and the Applicant has reached agreement with the directly affected landowners for the location of all storage gathering pipelines, as documented in the executed Letters of Acknowledgement (Schedule 9-8). Agreement-in-principle to the pipeline route has been received from the City of Sarnia and the County of Lambton (Schedule 9-10). The County of Lambton is in the process of reviewing the draft agreement that would allow that portion of the transmission pipeline to occupy the road allowance. The Applicant anticipates that a fully executed agreement will be in place with the County of Lambton by September 2008 (IR OEB-9). The City of Sarnia has indicated that they would consider a form of agreement for occupation of the road allowance similar to that being negotiated with the County of Lambton. The Applicant anticipates that a fully executed agreement will be in place with the City of Sarnia by November 2008 (IR OEB-9). For the storage gathering pipelines, the Gas Storage Leases grant the Applicant the right to construct, operate and maintain gathering pipelines and roadways to connect wells. In addition, the Applicant will pursue and acquire easements as further protection for its storage gathering pipeline assets following installation of the facilities (Pre-filed Evidence, pp. 47-48). Any temporary working room required for the pipeline construction will be established in the summer/fall 2008 with negotiations to follow (Pre-filed Evidence, pp. 48-49).

The Applicant has actively worked with property owners, business owners and the broader community to develop specific mitigation measures along the proposed pipeline route as well as within the DSA to address their concerns and issues (IR OEB-10). The Applicant will continue to work with impacted parties to develop specific mitigation measures and to communicate Project status and the construction schedule to all directly affected and adjacent property owners as well as appropriate government agencies and bodies.

Accordingly, the Applicant submits that the proposed facilities are needed, have been prudently designed and that the construction of those facilities is in the public interest. Respectfully, the Applicant requests that the Board grant an Order for Leave to Construct the facilities for the Sarnia Airport Pool.

5.0 CONCLUSION

In conclusion, the Applicant submits that the Applications satisfy the objectives of the Board in evaluating applications for storage development and that the evidence is sufficient to grant approval of the Applications. Therefore, the Applicant respectfully requests that the Board grant the requested approvals for the Sarnia Airport Pool and that the Board's Decision and/or Orders in this matter be issued in June 2008. A timely decision will accommodate the project development and construction timetable and allow the Applicant to meet its in-service target.

At this time, there have been no recommendations put forth regarding proposed conditions of approval. The Applicant anticipates that the issue of proposed conditions of approval may arise during argument, and therefore, reserves the right to address any such recommendations in its reply argument.

All of which is respectfully submitted this 14th day of May, 2008.