EB-2012-0451
EB-2012-0433
EB-2013-0074

ONTARIO ENERGY BOARD

IN THE MATTER OF an application by Enbridge Gas Distribution Inc. for: an order or orders granting leave to construct a natural gas pipeline and ancillary facilities in the Town of Milton, City of Markham, Town of Richmond Hill, City of Brampton, City of Toronto, City of Vaughan and the Region of Halton, the Region of Peel and the Region of York; and an order or orders approving the methodology to establish a rate for transportation services for TransCanada Pipelines Limited;

AND IN THE MATTER OF an application by Union Gas Limited for: an Order or Orders for pre-approval of recovery of the cost consequences of all facilities associated with the development of the proposed Parkway West site; an Order or Orders granting leave to construct natural gas pipelines and ancillary facilities in the Town of Milton; an Order or Orders for pre-approval of recovery of the cost consequences of all facilities associated with the development of the proposed Brantford-Kirkwall/Parkway D Compressor Station project; an Order or Orders for pre-approval of the cost consequences of two long term short haul transportation contracts; and an Order or Orders granting leave to construct natural gas pipelines and ancillary facilities in the City of Cambridge and City of Hamilton.

ARGUMENT-IN-CHIEF OF UNION GAS LIMITED

(BRANTFORD-KIRKWALL/PARKWAY D PROJECT, EB-2013-0074)

Torys LLP
79 Wellington St. W., Suite 3000
Box 270, TD Centre
Toronto, Ontario M5K 1N2

Crawford Smith (LSUC #: 42131S)
Tel: 416.865.8209
csmith@torys.com

Myriam Seers (LSUC #: 55661N)
Tel: 416.865.7535
mseers@torys.com

1. This is Union Gas Limited's ("Union") Argument-in-Chief in EB-2013-0074.

Overview

2. North American natural gas markets are experiencing dramatic changes. Production of conventional gas from mature natural gas basins such as the Western Canadian Sedimentary Basin is in decline while new production basins like Marcellus and Utica have emerged. Marcellus production alone has increased by nearly 7 PJ/d since the beginning of 2007, with supply expected to more than triple by 2035.

3. The increase in shale and other non-traditional gas supply has put downward pressure on natural gas prices and reduced price volatility. It has also changed the price differentials across North America and impacted market behavior. Market participants have been moving away from long haul transportation. They are contracting for short haul transportation to move supply purchased at liquid hubs, such as Dawn, located closer to market areas. This has increased demand for transportation on the Dawn-Parkway System and created an opportunity for Union to diversify its natural gas supply portfolio for Union North.

4. This application by Union is brought in response to these fundamental market changes. The application consists of the following five requests:

(1) Section 90 Application for leave to construct a NPS48 pipeline from the existing Brantford Valve Site to the Kirkwall Custody Transfer Station ("Proposed Pipeline");

(2) Section 91 Application for leave to construct the Parkway D compressor, including measurement, and associated facilities ("Proposed Parkway D Compressor");

together the "Project"

(3) Section 36 Application for pre-approval for recovery of the cost consequences of all facilities associated with the development of the Project from ratepayers, effective January 1, 2015;

(4) Section 36 Application for approval of an accounting order to establish the Brantford-Kirkwall/Parkway D Deferral Account; and

(5) Section 36 Application for pre-approval of the cost consequences of two long term short haul transportation contracts on the TransCanada Pipelines Limited ("TCPL") Mainline.

5. The Project is required for Union to deliver new contracted volumes to Enbridge Gas Distribution, Gaz Métro, the U.S. Northeast and to provide Dawn based natural gas supply to Union customers in a cost effective and reliable manner.

6. The facilities and new short haul transportation contracts described in the application will produce significant benefits for Union's in-franchise customers, particularly in Union North. These benefits include increased security and diversity of supply. They also include gas supply savings to Union North sales service and bundled direct purchase customers of approximately $144 million over the next 15 years.

7. The facilities proposed by Union were determined in consultation with Enbridge, TCPL and Gaz Métro and are reflected in the Settlement Term Sheet between the parties. The proposed facilities complement the projects being developed by Enbridge and TCPL; specifically, Segment A of the GTA Project and the King's North Project, respectively. The further benefits of the Project similarly include diversity and security of supply for Enbridge and Gaz Métro; and, an affordable source of natural gas for the proposed Enbridge and TCPL expansions. Between Union, Enbridge, and Gaz Métro gas supply cost savings in the hundreds of millions are possible between 2015 and 2030 should the Project proceed.

8. By building the Project, Union is positioning Ontario for future growth. Ontario businesses compete with those in neighboring jurisdictions. It is important for those businesses to have access to robust economic sources of supply at Dawn. In this respect, the Project supports the continued growth of the Dawn Hub, which increases depth, liquidity and price competitiveness of gas supply options for Ontario customers over the long term.

9. The Project also pro-actively addresses the impacts of any future turn back. Union will be better positioned to re-purpose or re-sell turn back capacity provided market opportunities exist. The ability to re-purpose or re-sell turn back capacity helps mitigate future rate risk for Union's customers.

10. The total estimated capital cost of the Project is $204 million. The largest revenue requirement associated with the Project increases to approximately $15.9 million over the 2015 to 2018 period. The Project will result in: (i) an increase of costs of approximately $1.6 million, allocated to Union North in-franchise rate classes, (ii) an increase of costs of approximately $16.0 million allocated to ex-franchise rate classes and (iii) a reduction in costs of approximately $1.7 million, allocated to Union South in-franchise rate classes. The ex-franchise customers that will bear the majority of the costs associated with the Project have expressed their unqualified support.

11. Total residential bill impacts were calculated to reflect the combined impact of the gas cost savings associated with Union's long term contracting proposal and the Project. For the average Rate 01 residential customer in Union North consuming 2,200 m3 per year, the total bill impact is a reduction of ($14 to $15) per year as compared to Union's current approved rates (per EB-2011-0210). For the average Rate M1 residential customer in Union South consuming 2,200 m3, the total bill impact is a reduction of approximately ($0.40) per year.

12. For ex-franchise customers, and others that use the Dawn-Parkway System, the Dawn-Parkway M12 rate will increase from $0.078GJ/d to $0.091/GJ/d upon completion of the Parkway West Project and this Project. Union's M12 rate has traditionally ranged from $0.07/GJ/d to $0.10/GJ/d. The new M12 rate will be within this historical range.[1]

13. Union proposes to start construction of the Proposed Parkway D Compressor in the summer of 2014 and , the Proposed Pipeline in the spring of 2015 with a target in-service date for the entire Project of the fall of that year. Environmental reviews of the Project conclude that

[1] Union Evidence, Section 10, p.9. This does not include the impact of the August 23, 2013 capital cost update for Parkway West. The expected impact of this update is approximately $0.001/GJ/d.

with appropriate mitigation measures there will be no long term significant impacts as a result of the Project. Similarly, landowners have not expressed any significant concerns with the Project.

14. In Union's submission, the Project is in the public interest. It should be approved by the Board.

15. The balance of this argument is organized based on the Board's Issues List.

Issue A1: Are the Proposed Facilities Needed? / Issue A5: Is the Proposed Timing of the Project Appropriate?

16. As described throughout Union's evidence, the Project is needed and the timing appropriate. The Project provides for market access to emerging supply basins located closer to Ontario and other regional markets; addresses incremental demands on the Dawn-Parkway System; results in significant benefits for energy consumers in Ontario and elsewhere including Union's in-franchise and ex-franchise customers; and represents rational development of Union's facilities.

17. In what follows we first discuss the proper role of the Settlement Term Sheet, we then discuss Union's system, the changing North American gas supply dynamics and, finally, the resulting incremental demands for Dawn-Parkway capacity which support the need for the Project.

The Proper Role of the Settlement Term Sheet

18. On September 10, 2013, Union, Enbridge, Gaz Métro and TCPL entered into a binding Settlement Term Sheet covering a broad range of issues. The Term Sheet will be reflected in a Settlement Agreement executed by the parties. That agreement will then form the basis of an application by TCPL to the NEB seeking approval of the relevant tolls, as well as certain changes to TCPL's tariffs.[2]

[2] Exhibit K1.1

19. Overall, the Term Sheet can fairly be characterized as the product of extraordinary cooperation by the parties. The Term Sheet reflects a consensus view that the volatility and uncertainty existing in the marketplace today had to be addressed. For example, as Mr. Rhéaume (Gaz Métro) testified:

> Then – and Mr. Clark made probably a better explanation than I'm going to do, but I'm going repeat a few things here -- then came the last few months, where lots of uncertainty happened in the market. From the Quebec perspective, this uncertainty is absolutely unbearable. We get issues with our customers. Almost all of our industrial customers came back to Gaz Métro to get certainty in terms of transportation capacity, because they felt the environment did not allow them to be able to secure by themselves their needed capacities.
>
> We have one very specific and now public case of a huge fertilizer plant that wants to install itself in Quebec. It is a project that is strongly supported by the government, hundreds of jobs, and they would be the most -- they could be the most important customer, gas customer in Quebec. And they are calling us and saying: You need to settle things, because right now in the current environment, we cannot fund our projects because of all the uncertainty related to getting capacity and getting adequate supply at a fair cost in good terms.[3]

20. The Term Sheet is consistent with the Board's expectation, expressed in EB-2011-0210 that Union, TCPL and Enbridge should work cooperatively together in developing necessary infrastructure.[4]

21. In Union's submission, while the Term Sheet is relevant to the Project, that relevance should not be overstated. Principally, the Term Sheet is relevant because it provides for:

(1) Market Access to Dawn and Niagara for gas consumers in Ontario and Quebec. Under the Term Sheet, TCPL will work with Union, Enbridge and Gaz Métro to reinstate the short haul volumes awarded by TCPL as a result of its May 2012 new capacity open season for an in-service date of November 1, 2015. TransCanada will also begin work immediately on its King's North Project which, in conjunction with Segment A of Enbridge's GTA Project and the Project will

[3] Transcript Volume 8, October 9, 2013, pp.52- 53.

[4] EB-2011-0210 Decision, pp.126-127.

relieve the present constraint between Parkway and Maple. Further expansions on this path are expected in 2016 and beyond.[5]

(2) Maintenance of the toll differential. The current tolling framework results in a substantial disincentive to TCPL to improve market access to Dawn and Niagara. In order to overcome this disincentive, the LDCs have agreed to a tolling framework which will ensure market access and supply flexibility, while providing cost recovery for TCPL. Relevant to the Project, the framework will substantially maintain the current differential between short haul and long haul tolls. By maintaining this differential, the gas cost savings projected by each of Union, Enbridge and Gaz Métro will be maintained. Union's calculation of these savings is more particularly described in J4.5. There, Union has calculated the savings based, in part, on a $0.125 increase in short haul tolls arising from the Term Sheet.[6]

(3) Resolution of Outstanding Claims. As described by the witnesses, the pre-existing litigious atmosphere had created uncertainty in the marketplace including for the LDCs, their customers and TCPL. The Term Sheet provides for the resolution of all outstanding disputes such as the Complaint filed by the LDCs with the NEB, the s. 71 application filed by Union and GMi, also with the NEB, as well the claim filed by TransCanada against Enbridge in the Ontario Superior Court of Justice.

The Union Gas System

22. As described further in Section 3 of Union's Evidence, Union serves approximately 1.4 million customers in northern, eastern and southern Ontario through an integrated network of

---

[5] See, for example, Transcript, Volume 1, September 13, p. 41; Transcript Volume 2, September 16, 2013, p.92 and 127; Volume 3, September 17, p. 124; Volume 8, October 9, 2013, p. 52-53; and Volume 9, October 10, 2013, pp. 98-99.

[6] Exhibit J4.5, reflecting annual savings calculated in Scenario b).

over 67,000 kilometres of natural gas pipelines. Union operates storage and transmission assets that include 163 Bcf of underground natural gas storage at the Dawn Hub and the Dawn-Parkway System, which connects the Dawn Hub to consuming markets in Ontario, Québec and the U.S. Northeast. Throughput serving Union's in-franchise customers during 2011 was almost 500 Bcf. Throughput serving Union's ex-franchise storage and transmission customers during 2011 was over 830 Bcf. In total, Union transported in excess of 1.3 Tcf of natural gas in 2011, which is slightly greater than all of the natural gas consumed in Ontario and Québec or approximately 5% of North American demand. A map of Union's service territory and districts as well as the Dawn-Parkway System is provided in Figure 3-1 of Union's evidence.[7]

23. The Union North service territory is served almost exclusively off of the TCPL Mainline system, with no other option for the transportation or physical delivery of natural gas. These customers are therefore reliant upon the TCPL pipeline system.[8]

24. In Union South, Union operates the Dawn-Parkway System which includes an integrated network of natural gas transmission pipelines and compressors. The Dawn-Parkway System connects with other pipeline systems at three locations:[9]

(1) At Parkway, the Dawn-Parkway System connects to the TCPL Mainline and to the Enbridge system. Union connects to the TCPL Mainline within the existing Parkway site at a delivery point referred to as Parkway(TCPL). Union also connects to the Enbridge system within the existing Parkway site at a delivery point referred to as Parkway(Consumers), and at a second location two kilometres east at a delivery point referred to as the Lisgar Custody Transfer Station.

(2) Near Hamilton, the Dawn-Parkway System connects to the TCPL Mainline at Kirkwall Custody Transfer Station. The TCPL Mainline then connects to the

[7] Union Evidence, Section 3, p. 2

[8] Union Evidence, Section 3, p.2

[9] Union Evidence, Section 3, p. 2-3

import/export points at Niagara and Chippawa at the Ontario/New York border (known as TCPL's Niagara Line).

(3) At Dawn, near Sarnia, the Dawn-Parkway System connects to a number of pipelines: Vector Pipeline, Panhandle Eastern Pipeline, Great Lakes Gas Transmission ("GLGT") via TCPL, Michigan Consolidated, Bluewater Gas Storage and ANR via the NiagaraLink and the Enbridge (Tecumseh) system.

25. Union provides transportation services on the Dawn-Parkway System to ex-franchise customers, including Enbridge, TCPL, Gaz Métro and U.S. Northeast natural gas utilities. Union also uses its Dawn-Parkway System (and also TCPL services from Parkway) to ship natural gas from storage at the Dawn Hub to Union North. Union is accountable to its in-franchise customers and its ex-franchise firm transportation customers for the reliable delivery of natural gas under firm transportation contracts.[10]

26. With respect to the Dawn Hub, it is one of the largest and most important North American natural gas market hubs. It is highly liquid and the main source of supply for the Dawn-Parkway System.[11]

27. Liquidity at Dawn is the result of the combination of access to underground storage, interconnections with upstream pipelines, take away capacity to growth markets, a large number of buyers and sellers of natural gas, and price transparency. In its NGEIR Decision (EB-2005-0551) the Board concluded that: "it is in the public interest to maintain and enhance the depth and liquidity of the market at the Dawn Hub as a means of facilitating competition" (EB-2005-0551 Decision November 7, 2006, page 45, see also pp.7-8).[12]

28. By its depth and liquidity, the market at Dawn provides significant value to all Ontario customers by way of competitive natural gas commodity prices. A healthy, liquid Dawn Hub is

[10] Union Evidence, Section 3, p. 4

[11] Union Evidence, Section 3, p. 4

[12] Union Evidence, Section 3, p. 5

particularly important to Ontario's natural gas-fired generation market. Power generation contracts are structured based on the price of natural gas at Dawn. Accordingly, the price of natural gas at Dawn has a direct impact on the price of power generated from natural gas in Ontario.[13]

29. Overall, Union's Dawn-Parkway System is an integral part of the natural gas delivery system for Ontario, Québec and U.S. Northeast residents, businesses and industry. The Dawn-Parkway System connects these consuming markets to most of North America's major supply basins, to the largest area of underground natural gas storage in North America and to the liquid Dawn Hub. In Union's submission, it is in the public interest that this system be maintained and grown to the fullest extent possible.[14]

The Changing Gas Supply Dynamics

30. There is no dispute that North American natural gas markets are experiencing dramatic change. Production from mature, conventional North American natural gas basins is in decline while new production basins have emerged. While natural gas reserves still exist in mature natural gas basins, the economics of natural gas production favours new emerging production basins. This shift in terms of where natural gas is being produced is changing the way natural gas has been traditionally transported in North America, impacting the flow of natural gas on the pipeline grid. The changes are described in detail in section 4 of Union's evidence and the expert report prepared by Bruce Henning and ICF International (Schedule 4-1).[15]

31. ICF's main conclusions include the following:[16]

---

[13] Union Evidence, Section 3, p. 5-6

[14] Union Evidence, Section 3, p. 7

[15] Union Evidence, Section 3, p. 1. The changing North American gas supply dynamics are also discussed at length in Union's Evidence in EB-2012-0433 at Section 4.

[16] Union Evidence, Section 4, p. 9

(1) Natural gas consumption in Ontario is expected to grow, led by expanding use in the power sector.

(2) The decline in Ontario's natural gas availability from Western Canada is expected to continue in the future due to a combination of declines in conventional WCSB natural gas production and growth in Western Canadian demand (led by LNG exports and Alberta oil sands development).

(3) Growth in LNG exports and natural gas consumption from oil sands production, which use natural gas in the production process, will create significant requirements for natural gas produced in Western Canada. This growth creates new consumption options closer to production for natural gas use, which lessens the amount of natural gas available to move to markets in the east.

(4) U.S. supplies of natural gas will continue to grow. These have the potential to meet demand and lower delivered natural gas costs for households and businesses in Ontario and Québec provided the required infrastructure is developed.

32. One feature of the changing dynamics has been the explosive growth in the shale gas. It has increased from 10% of U.S. natural gas reserves in 2007 to about 32% in 2010. Today shale gas comprises almost one-third of all natural gas production in the U.S. The U.S. Energy Information Administration (the "EIA") is the statistical and analytical agency of the U.S. Department of Energy. In its "2013 Annual Energy Outlook", the EIA forecasts shale gas to constitute 49% of U.S. domestic production in 2035 with the U.S. Northeast (Marcellus/Utica) providing almost 15 Bcf/d of production (EB-2012-0433, Section 4, Figure 4-8, page 27). The EIA's most recent 2012 forecast was to the same effect.[17] By comparison, Alberta conventional production was approximately 10 Bcf/d in 2012 with 6 Bcf/d of that available for export.[18]

---

[17] Union Evidence, Section 4, p. 5

[18] Union Evidence, EB-2012-0433, Section 4, p. 20, Figure 4-4.

33. The rapid increase in natural gas supply has put downward pressure on North American natural gas prices and volatility. Natural gas basis (the difference in price between two supply points) in North America has been transformed. Prior to shale gas development in the U.S. Northeast, Appalachian trading points historically traded above the Henry Hub reflecting the cost to move natural gas from Henry Hub[19] to Appalachia. Natural gas at Appalachian trading points now trades at a discount relative to the Henry Hub (EB-2012-0433, Section 4, Figure 4-11, page 29). The growing production in Appalachia provides economic natural gas supply in close proximity to eastern markets. For the mature production of the WCSB, the basis between Western Canada and eastern markets has decreased well below tolls on pipeline systems transporting supply to eastern markets, further challenging production economics.[20]

34. The change in the regional pricing of natural gas has impacted market behavior and has driven eastern North American customers to increase the amount of gas supplied from more local basins and decrease the amount of supply from traditional supply basins requiring long haul transportation in their portfolios (i.e., gas purchased from more local and emerging basins and transported to eastern markets is now much less expensive than purchasing WCSB natural gas and shipping on long haul transportation paths to eastern markets). The Dawn Hub provides customers in Ontario and elsewhere the opportunity to purchase supply at a liquid hub. Purchasing gas at Dawn and transporting it to regional markets in Ontario, Quebec and the U.S. Northeast is now less expensive than purchasing gas in Western Canada and transporting it long haul. For eastern customers that have a choice, these fundamental changes in supply economics will mean that natural gas supply will increasingly be sourced from cost competitive shale gas in closer proximity to the market and less from traditional sources.[21]

35. In Union's submission, this change in dynamics presents Ontario consumers, including power, industrial, commercial and residential, with an opportunity to diversify their natural gas

[19] NYMEX is priced at Henry Hub, making Henry Hub the primary natural gas pricing reference point in North America.

[20] Union Evidence, Section 4, p. 6

[21] Union Evidence, Section 4, p. 7

supply portfolio. Accessing this new supply will be essential to providing diversity of supply and affordable energy prices to fuel Ontario's economic competitiveness. With the Project access to these new, proximate and abundant sources of supply can increase reliability and security for the Ontario natural gas supply portfolio. Mr. Isherwood testified:

> But there's so much competition for that gas in other pipelines, LNG, Alberta demand, it puts a question mark on it for us. That's not to say that I won't buy western supply at Dawn, you know. It's not to say that I won't be buying western supply along the main line. But there's a question mark.
>
> So for our customers and for Ontario we think it's very prudent to go back and create access to Dawn, where it has much more optionality around supply. There's -- many different basins come into Dawn. And if our Ontario industrials need to compete with neighbouring jurisdictions, we need access to the same gas they have and not be tied wholly to TCPL only.
>
> And again, I'm not trying to say TCPL's a bad option, it's just there's question marks, and as an LDC that has the prudency and a need to, an obligation to serve, we have to have options, and that's why it's so important for us to get through the Parkway.[22]

Incremental Demands on the Dawn-Parkway System

36. As a result of the changes described above, market participants in Ontario, Québec, Manitoba and the U.S. Northeast have restructured their natural gas supply portfolios, purchasing less WCSB natural gas supply and more supply from production basins and liquid market centres located closer to their end-use markets. Consequently, less long haul transportation from the WCSB is being held and more short haul transportation to the markets has been contracted. This trend has been occurring in the natural gas markets since the mid 2000's.[23]

37. In the result, Union has experienced increased demand for transportation on the Dawn-Parkway System. Enbridge, Gaz Métro and Vermont Gas have all contracted for new transportation capacity to provide increased diversity of supply and competitive energy options for Ontario, Quebec and the U.S. Northeast. Further, as evidenced by the 930 TJ/d of interest

---

[22] Transcript Volume 2, September 16, 2013, p. 92; Union Evidence, Section 4, p.7; see, also for example, references at footnote 5.

[23] Union Evidence, Section 5

expressed in Enbridge's recent Segment A open season and as discussed in Exhibit I.A4.UGL.APPrO.11, Union anticipates this demand to continue into the future.[24]

Binding Contracts for Dawn to Parkway Capacity

38. Union has executed binding contracts with Enbridge, Gaz Métro and Vermont as follows:[25]

Shipper	Start Date	Term (years)	Path	Awarded Quantity (GJ/d)
Vermont Gas	01-Nov-2014	10	Dawn to Parkway	8,100
Enbridge	01-Nov-2015	10	Dawn to Parkway	400,000
Gaz Métro	01-Nov-2015	10	Dawn to Parkway	257,784
Union Gas	01-Nov-2015	N/A	Dawn to Parkway	70,157
Total				736,041

Enbridge Capacity

39. Enbridge has executed contracts with Union for 400,000 GJ/d of Dawn to Parkway transportation capacity starting November 1, 2015. This incremental transportation capacity is in addition to approximately (2.15 PJ/d) of Dawn to Parkway transportation capacity and approximately 68,000 GJ/d of Dawn to Kirkwall transportation capacity currently contracted with Union.[26]

---

[24] Union Evidence, Section 7

[25] Union Evidence, Section 7, p. 9

[26] Union Evidence, Section 7, p. 11

40. Enbridge has executed an M12 transportation contract, a precedent agreement and a financial backstopping agreement. Enbridge has waived or satisfied all conditions precedent with the exception of government and regulatory approvals.[27]

41. Enbridge is the largest shipper on the Dawn-Parkway System which links the Enbridge delivery area to Dawn and its storage at the Tecumseh facilities near Sarnia, Ontario.[28]

42. Enbridge currently holds a 1.7 PJ/d Dawn to Parkway transportation contract as part of their Dawn-Parkway System transportation portfolio which represents approximately 25% of the total Dawn-Parkway transportation capacity. The primary term of that contract expires March 31, 2014. Union and Enbridge have negotiated an extension of the primary term to October 31, 2022 and increased the termination notice period from the standard two years to five years.[29]

43. In addition to the new Dawn to Parkway transportation capacity of 400,000 GJ/d from Union, Enbridge has also requested a shift of 400,000 GJ/d of Dawn to Parkway capacity from a delivery point on the suction side of Parkway (i.e. at prevailing line pressure) to a delivery point on the discharge side (i.e. flows through compression). The total 800,000 GJ/d will flow through Parkway, driving an increase in horsepower (i.e. compression) required at Parkway.[30]

Gaz Métro Capacity

44. Gaz Métro has executed contracts with Union for 257,784 GJ/d of Dawn to Parkway transportation capacity starting November 1, 2015. This incremental transportation capacity is in addition to 285,000 GJ/d of Dawn to Parkway transportation capacity currently contracted with Union. As previously noted, Gaz Métro requires incremental transportation capacity on the

---

[27] Union Evidence, Section 7, p. 12. Enbridge’s date to satisfy conditions precedent has subsequently been updated to December 31, 2013.

[28] Union Evidence, Section 7, p. 12

[29] Union Evidence, Section 7, p. 12

[30] Union Evidence, Section 7, p. 12. See also footnote 39.

TCPL Mainline east of Parkway to alleviate the current capacity constraint between Parkway and Maple on the TCPL Mainline to facilitate its intended markets.[31]

45. Gaz Métro has executed an M12 transportation contract, a precedent agreement and a financial backstopping agreement. As stated earlier, Gaz Métro has received Régie approval of this Dawn Hub commitment and has waived or satisfied all conditions precedent.[32]

Vermont Gas Capacity

46. Vermont Gas has executed contracts with Union for 8,100 GJ/d of Dawn to Parkway transportation capacity starting November 1, 2014. This incremental transportation capacity is in addition to 20,500 GJ/d of Dawn to Parkway transportation capacity currently held by Vermont Gas, representing a 40% increase in their Dawn to Parkway transportation capacity. This transportation capacity will provide Vermont Gas with increased access to the liquidity and supply diversity of the Dawn Hub. Vermont Gas does not require incremental downstream transportation on the TCPL Mainline to complement this new Dawn to Parkway System capacity.[33]

47. Vermont Gas has executed an M12 transportation contract, a precedent agreement and a financial backstopping agreement. All shipper conditions precedent have been satisfied.[34]

Union Capacity

48. Union requires incremental Dawn to Parkway System capacity for 70,157 GJ/d to serve Union North (see Section 11 of Union's pre-filed evidence). As previously noted, Union requires transportation service on TCPL, including Parkway to Union NDA and Parkway to

---

[31] Union Evidence, Section 7, p. 13

[32] Union Evidence, Section 7, p. 13

[33] Union Evidence, Section 7, p. 13

[34] Union Evidence, Section 7, p. 13

Union EDA, to alleviate the capacity constraint on the TCPL Mainline between Parkway and Maple to facilitate serving its intended markets.[35]

Related Projects

49. As discussed repeatedly throughout the hearing, market access through and downstream of Parkway is essential. Without that access, the above and future demands cannot be met.[36]

50. Gaz Métro and Union require transportation on the TCPL Mainline, downstream of Parkway, to move 367,784 GJ/d of natural gas (257,784 GJ/d and 110,000 GJ/d respectively) to the intended markets. Therefore, the Gaz Métro and Union Dawn to Parkway capacity is dependent upon a further TCPL Eastern Canadian Mainline Expansion for November 1, 2015, which TCPL is now committed to pursue (i.e., King's North).[37]

51. The Enbridge Dawn to Parkway capacity is dependent upon completion of Segment A of the GTA Project to reach the intended delivery area within its GTA pipeline system.[38]

52. The relationship between the Proposed Pipeline, Segment A of the GTA Project and the King's North project is further explained in K8.1. Note, while the Proposed Pipeline is dependent on those two projects proceeding, the Proposed Parkway D Compressor is not. In order to meet Enbridge's contracted distribution demands, incremental compression is required. This need is above and beyond the need for the loss of critical unit compression (Parkway C) discussed in EB-2012-0433.[39]

Issue A2: Is the Project Economic? / Issue A3: Are the Costs and Rate Impacts Reasonable?

[35] Union Evidence, Section 7, p. 14

[36] Transcript Volume 2, September 16, 2013, p. 127

[37] Union Evidence, Section 7, p. 10

[38] Union Evidence, Section 7, p. 10

[39] Union Evidence, Section 9, p. 1, Exhibit K8.1; Transcript Volume 3, September 17, pp. 136-137, Volume 6, September 26, 2013, pp. 35-36 and Transcript Volume 9, October 10, 2013 p. 129-130.

Project Costs

53. The cost of the facilities is $204 million and is comprised of:

(1) The Brantford-Kirkwall pipeline at a cost of $96 million (see Schedule 9-1).

(2) Parkway D Compressor Station at a capital cost of $108 million (see Schedule 9-2).

54. The amounts above cover all costs related to materials, construction and labour, environmental protection measures, contingencies, and interest during construction of the Project. The Proposed Parkway D Compressor station costs also include the costs related to measurement and new associated facilities.[40]

55. At this stage of the project, Union has a high degree of confidence in its cost estimates. As Union explained at the hearing, it is further along in the costing process than it has been in other leave to construct applications in which approval was granted by the Board. The assessment of Project costs is reasonable.[41]

56. With respect to annual revenue requirement associated with the Project, it ranges from approximately ($0.1 million) in 2015 to $15.9 million in 2018. The revenue requirement represents the costs associated with the Project facilities deemed to be in service in each year from 2015 to 2018. The calculation of the annual revenue requirement from 2015 to 2018 at Schedule 10-1.[42]

57. Union's Board-approved cost allocation study, allocates Dawn Parkway supplemental costs between in-franchise and ex-franchise rate classes using distance weighted Dawn-Parkway design day demands. This methodology recognizes that the Dawn-Parkway system is designed to meet easterly design day requirements and that a rate class's use of the Dawn-Parkway system

---

[40] Union Evidence, Section 9, p. 1

[41] Transcript Volume 4, September 19, 2013, p. 73

[42] Union Evidence, Section 10, p. 5

depends on that rate class's design day demands and the distance those design day demands are required to be transported on the system. [43]

58. Union is not proposing any changes to the allocation methodology of Dawn-Parkway transmission costs as a result of the Project. In Union's view, the current Board-approved cost allocation method is appropriate because it recognizes that both in-franchise and ex-franchise customers benefit from the current Dawn-Parkway system will continue to do so following the development of the Project. Based on the current Board-approved allocation of Dawn-Parkway costs, adjusted to include the increase in Union North demands of approximately 70,000 GJ/d and M12 demands of 363,000 GJ/d associated with the Project (for a total of 433,000 GJ/d), in-franchise rate classes will be allocated approximately 16% of the costs directly attributable to the Project. The remaining 84% of costs directly attributable to the Project will be allocated to ex-franchise rate classes. Those customers support the Project.[44]

Project Economics

Economic Feasibility Tests

59. Union employs a three-stage analysis to assess the economic feasibility of projects in accordance with the Board's E.B.O. 134 Report on System Expansion. This methodology is consistent with Union's past facilities applications.[45]

60. Stage 1 consists of a discounted cash flow ("DCF"). Significantly, this analysis is specific to Union and includes, for example, only its anticipated gas cost savings. It therefore excludes the very real benefits that flow to other parties. These benefits are further described under Stages 2 and 3 below. [46]

---

[43] Union Evidence, Section 10, p. 5

[44] Union Evidence, Section 10, p. 5-6

[45] Union Evidence, Section 9, p. 1

[46] Union Evidence, Section 9, p. 1. Union's anticipated annual gas cost savings of approximately $10 million are detailed in Exhibit J4.5.

61. In conducting the DCF, incremental cash inflows and outflows resulting from a project are identified. The net present value ("NPV") of the cash inflows is divided by the NPV of the cash outflows to arrive at a profitability index ("PI"). If the NPV of the cash inflows is equal to or greater than the NPV of the cash outflows, the PI is equal to or greater than 1.0 a project is considered economic. [47]

62. In addition to these three stages, pursuant to E.B.O. 134 (EB-2012-0092) projects should be supported by an assessment of the potential impacts of the proposed natural gas pipeline(s) on the existing transportation pipeline infrastructure in Ontario, including an assessment of the impacts on Ontario consumers in terms of cost, rates, reliability and access to supplies. These impacts have been addressed by Union throughout its application. The underlying premise of the application is to provide for the rationale expansion of Ontario infrastructure to accommodate the market's desire for access to economic short haul transportation (see Figure 9-1 for further detailed references).[48]

63. In the result, the Project is economic. The Stage 1 DCF analysis indicates a cumulative NPV of $1.8 million and a PI of 1.01.[49] This estimate is conservative. First, the gas cost savings included in the estimate reflect an Empress to Dawn basis differential of $0.92/GJ whereas TCPL's own forecast for the winter 2013/2014 reflects a differential of $0.64/GJ.[50] As Mr. Isherwood testified, every 10 cent reduction in the basis differential results in a $2 million increase in gas cost savings.[51] Second, the economics reflect only 15 years of gas cost savings notwithstanding that the Project has been evaluated over a 30-year period and the fact that Union maintains its pipeline system in a manner that the actual life is much longer than that.[52]

---

[47] Union Evidence, Section 9, p. 1-2

[48] Union Evidence, Section 9, p. 2

[49] Exhibit J4.6

[50] TCPL.Union.10, p. 2

[51] Transcript Volume 8, October 9, 2013, p. 116

[52] Union Evidence, Section 9, p.5. See also Exhibit J4.6.

64. Also relevant to the economic analysis is the "Landed Cost Analysis" performed by ICF. In J3.5, ICF analyzed the impact of the dynamic market response on the landed cost of gas in Ontario under: (1) the existing NEB approved tolls framework; and (2) the estimated tolls assuming the Settlement Term Sheet is approved. As indicated by ICF in the response:

> While the impact of the dynamic market response on prices at Empress and at Dawn is expected to be similar in both the Compliance Toll and the Estimated Settlement Toll scenarios, the impact on gas portfolio costs to purchasers is not. In the compliance case, a higher percentage of natural gas requirements are expected to be sourced at Empress due to the need to hold additional FT capacity, as well as the expected lack of expansion through the Parkway to Maple constraint. The increased percentage of gas sourced at Empress leads to a greater impact on average gas costs for the Compliance Tolls case relative to the Estimated Settlement Tolls case. [53]

65. Ultimately, ICF concludes that:

- "Under all of the scenarios examined [including differing utilization rates], facilities that allow access to additional natural gas supplies through Dawn and Niagara/Chippawa will produce gas cost savings for consumers in Ontario compared to acquiring natural gas at Empress and transporting [that gas] on the TransCanada Mainline."
- "The risk associated with a failure to successfully implement the principles of the Settlement Term Sheet presents the highest landed cost of gas for any of the scenarios examined. The conclusion is based upon the recognition that absent the implementation of the principles embodied in the Settlement Term Sheet, most of the gas transported to Ontario will be sourced through Empress. Implementation of the principles embodied in the Settlement Term Sheet provides the opportunity to access gas at Dawn, reducing the landed cost of gas."[54]

---

[53] Exhibit J3.5, p.7

[54] Exhibit J3.5, p.8

Stage 2 – Benefit/Cost Analysis

66. A Stage 2 analysis may be undertaken when the Stage 1 NPV is negative. This is typical for transmission related expansion projects. In Union's experience, most of its pipeline expansions have, historically, had a PI less than 1.0. (For this reason, among others, the focus by parties during cross-examination on the extent to which the PI is above 1.0 is largely misplaced.)[55]

67. Here, as described above, the NPV is positive and it is not necessary to complete a Stage 2. Nevertheless, it remains important that, as a direct result of the Project, substantial gas cost savings are also available to other customers in Ontario, Québec and elsewhere. As discussed further below, Enbridge has estimated that it will realize savings of approximately $49 million per year[56] while Gaz Métro has estimated savings in the range of $100 million per year.[57] These customers select transportation services on Union's system based on their own assessment of the most economical way to meet increases in energy requirements. [58]

Stage 3 – Other Public Interest Considerations

68. There are a number of other public interest factors for consideration as a result of the addition of the proposed facilities that are not readily quantifiable, such as security of supply, contribution to a competitive market and environmental benefits.[59]

69. *Enhanced Security*. As Union adds additional pipeline sections on the Dawn-Parkway System, security, reliability and diversity of supply for all customers will be enhanced. The proposed facilities improve the diversity of supply to all customers by enabling the movement of additional natural gas supplies away from Dawn. The Brantford-Kirkwall section of the Dawn-

[55] Union Evidence, Section 9, p. 5

[56] As per J6.X, p.2

[57] Transcript Volume 8, October 9, 2013 p. 52

[58] Union Evidence, Section 9, p. 6

[59] Union Evidence, Section 9, p. 6

Parkway system is the only section without an NPS48 pipeline[60] therefore this Project will provide additional security to the system. The proposed facilities provide all customers with enhanced access to alternative sources of supply in the event of insufficient capacity or disruptions to other pipeline systems. When approving previous expansions of the Dawn-Parkway System, the Board has consistently recognized these benefits.[61]

70. *Competitive Market Impacts*. Construction of the proposed facilities will enhance and improve the competitive market. As capacity away from Dawn increases, including downstream of Parkway, trading activity at the Dawn Hub will increase. This results in increased price diversity, liquidity and competitiveness. All natural gas customers benefit from increased access to competitively priced gas supply.[62]

71. *Environmental Effects*. Natural gas, because of its clean-burning properties, has an increasingly important role to play in reducing the environmental impacts of energy use. The use of natural gas, either with or in place of other fossil fuels, in residential, commercial, industrial and transportation applications reduces the environmental impact in two key areas. First, the process is frequently more efficient thereby reducing total energy use. Secondly, natural gas pollutant release per unit of energy is less than other fossil fuels.[63]

72. *Employment*. The construction of this Project will result in additional direct and indirect employment. There will be additional employment of persons directly involved in the construction of the Project. [64]

73. *Utility Taxes*. A decision to proceed with this Project will result in Union paying taxes directly to various levels of government. These taxes include income and municipal taxes paid

---

[60] Transcript Volume 9, October 10, 2013 p. 17

[61] Union Evidence, Section 9, p. 6

[62] Union Evidence, Section 9, p. 7

[63] Union Evidence, Section 9, p. 7

[64] Union Evidence, Section 9, p. 7

by Union as a direct result of the Project and are included as costs in the Stage 1 analysis. These taxes are not true economic costs of the Project since they represent transfer payments within the economy that are available for redistribution by the federal, provincial and municipal governments.[65]

74. *Employer Health Taxes*. The additional employment that will result from the construction of this Project will generate additional employer health tax payments to aid in covering the cost of providing health services in Ontario.[66]

Additional Project Benefits

75. The proposed facilities deliver other benefits to Union's customers, Ontario, and energy consumers in Québec and the U.S. Northeast, as follows:[67]

(1) Required Expansion — The expansion of Union's Dawn-Parkway System is required to meet incremental demand for Union North and ex-franchise customers. Further, as each of the members of the Joint Panel explained, access to short haul transportation and natural gas supplies located closer to market is required Through their incremental capacity, Enbridge and Gaz Métro have increased their long term commitments to the Dawn Hub and Union's Dawn-Parkway System. A Dawn-Parkway System that remains as fully contracted as possible benefits both in-franchise and ex-franchise customers.

(2) Cost benefits for Union South and Union North — Allocating the costs of the proposed facilities using the Board-approved allocation of Dawn to Parkway costs, adjusted to include the increase in Union North and M12 demands, results in a cost reduction of approximately $1.7 million for Union South in-franchise rate classes. For Union North in-franchise rate classes, there is a cost increase of

[65] Union Evidence, Section 9, p. 8

[66] Union Evidence, Section 8, p. 8

[67] Union Evidence, Section 9, p. 8-9

approximately $1.6 million associated with the proposed facilities. However, for Union North sales service and bundled direct purchase customers in all zones the cost increases resulting for the proposed facilities are more than offset by the approximately $10 million in annual gas cost savings that are expected to accrue to these customers as a result of Union's long-term TCPL contracting proposal.

(3) Enbridge and Gaz Métro customers benefit — Enbridge and Gaz Métro's customers will also benefit from the competitive supplies available at Dawn delivered in part by the proposed expansion facilities of the Project. As described above, annual savings are estimated to be up to $49 million and $100 million, respectively. Combined with the estimated Union gas cost savings, results in savings for Ontario and Québec energy consumers of approximately $200 million per year, or over $2.0 billion between 2015 and 2030.

(4) Diversity and security of supply — Gaining access to Dawn provides customers in Union North, Enbridge's franchise, Québec and the U.S. Northeast long-term access to multiple supply basins. This diversity supports competitively priced choices for customers, while at the same time ensuring secure sources of supply over the long term.

(5) Long-term growth and rate stability — Continued growth on the Dawn-Parkway System is critical for managing long-term usage of existing assets resulting in more predictable and stable rates in the future. Union expects future turn back on the Dawn-Parkway System, especially for the Dawn to Kirkwall path. It is in the best interest of ratepayers if the Dawn to Kirkwall capacity that is turned back can be re-purposed or re-sold, potentially mitigating rate increases to all rate classes. Building the Proposed Parkway D Compressor allows for the opportunity to re-sell or re-purpose turned back Dawn to Kirkwall capacity as Dawn to Parkway transportation. The ability to do so will continue to be contingent upon other factors, such as market need, expansion through the Parkway to Maple corridor, regulatory frameworks, and tolls. It is certain, however, that a prerequisite to

managing any or all of these factors is the expansion of Union's Dawn-Parkway System as proposed.

(6) Continued growth of the Dawn Hub — Continued expansion on the Dawn-Parkway System is driven by, and will drive, a robust Dawn Hub. The gas cost savings noted above for Union, Ontario, and Québec energy consumers are a direct result of the ability to access supplies coming into, or stored at, Dawn. Being connected, either directly or indirectly, to most North American supply basins allows for a deep, liquid, and competitive market at Dawn. This depth offers Union's customers, and customer downstream of Parkway, security and diversity of supply at great cost effectiveness.

76. The expansion proposed by the Project will continue to ensure growth of the Dawn Hub. Increased transportation capacity to take natural gas away from Dawn will encourage more market participants to bring gas into or transact at Dawn. Increased market participants contribute to the liquidity and depth of the market at Dawn, which benefits customers and Ontario over the long term.[68]

The Rate Impacts are Reasonable

77. To calculate rate impacts, Union added the largest revenue annual requirement directly attributable to the Project ($15.9 million) to Union's 2013 Board-approved cost allocation study. Using the allocation of Dawn-Parkway costs per the 2013 Board-approved cost allocation study, adjusted to include the increase in Union North and M12 demands described above and throughout the evidence, results in: (i) an increase of approximately $1.6 million, allocated to Union North in-franchise rate classes, (ii) an increase of approximately $16.0 million allocated to ex-franchise rate classes and (iii) a reduction of approximately $1.7 million, allocated to Union South in-franchise rate classes. The cost allocation impact by rate class is provided at Schedule 10-2, column (a).[69]

---

[68] Union Evidence, Section 9, p. 11

[69] Union Evidence, Section 10, p. 6

78. In comparison to the 2013 Board-approved rates, the bill impact on the average Rate M1 residential customer in Union South consuming 2,200 m^3 per year is a decrease of approximately ($1.12) per year. For the average Rate 01 residential customer in Union North consuming 2,200 m^3 per year, the bill impact is an increase of approximately $2.80 per year. Rate M1 and Rate 01 rate impacts are provided at Schedule 10-3.[70]

79. In Union's submission, the rate and bill impacts are reasonable.

Issue A4: What are the Alternatives to the Proposed facilities? Are any Alternatives Preferable?

80. Facility and non-facility alternatives to the Project were considered by Union. As described in Section 8 of Union's Evidence, non-facility alternatives (e.g. winter peaking service) are not viable due to the large size of the forecast 2015/2016 capacity shortfall of approximately 557 TJ/d and, the fact that the shortfall is associated with firm incremental demand.[71]

81. With respect to facility alternatives, Union considered pipeline looping and compression alternatives in developing its application. These were considered alone and in various combinations. Union further responded to interrogatories in relation to alternatives and provided further analysis in response to Exhibit J4.2. Across all pipeline and compressor scenarios, the Project ranked lowest (i.e. best) in terms of capital cost per unit of capacity.[72]

Issue C1: Do the Facilities Address the Board's Guidelines for Hydrocarbon Pipelines?

82. Section 12 of Union's evidence addresses the Board's Guidelines for Hydrocarbon Pipelines. There was no cross-examination in relation to this issue at the hearing. In Union's

[70] Union Evidence, Section 10, p. 8 and Section 11 Addendum, p. 8 as stated prior to gas cost savings.

[71] Union Evidence, Section 8, p. 7

[72] Exhibit I.A1.UGL.FRPO.22 and Exhibit J4.2

submission, neither the Proposed Pipeline nor the Proposed Parkway D Compressor raises significant environmental concerns.[73]

The Brantford-Kirkwall Pipeline

83. A Route Selection and Environmental Impact Assessment Report ("ER") for the Proposed Pipeline was first completed in 2009 by Stantec Consulting Limited. In early 2013 Stantec prepared an Addendum to the ER. Copies of the ER and the Addendum were provided to the Ontario Pipeline Coordination Committee ("OPCC"), all affected municipalities and the Grand River Conservation Authority. The Executive Summary of both reports was provided to landowners, as well as First Nations and the Métis Nation of Ontario. These parties were given the option to receive complete copies of the reports.[74]

84. Public information sessions were initially held on August 27, 2008 and November 5, 2008. A more recent consultation program was initiated in December 2012. Thus far, no significant concerns have been expressed in relation to the Proposed Pipeline.[75]

85. The location of the Proposed Pipeline is the environmentally preferred route. A mitigation plan has been developed to minimize any potential impacts to the environment. Union submits that the environmental effects of the Proposed Pipeline will be minimal.[76]

Parkway West Compressor Station

86. The environmental and socio-economic effects of the Proposed Parkway D Compressor are detailed in Stantec's Environmental Report for the Parkway West Compressor Station. The ER for the proposed Parkway West Compressor Station was forwarded for review to the OPCC

---

[73] Union Evidence, Section 12, p. 13-18

[74] Union Evidence, Section 12, p. 13

[75] Union Evidence, Section 12, p. 14

[76] Union Evidence, Section 12, p. 14

on March 18, 2013. Copies of the report were also forwarded to all affected municipalities, Conservation Halton, adjacent Landowners, First Nations and the Métis Nation of Ontario.[77]

87. No significant issues have been raised by any of these parties.[78]

88. An information session was held on March 7, 2013. Consultation will continue as part of the municipal review and approvals process.[79]

89. Again, the ER indicates that the Proposed Parkway West Compressor Station will have minimal effect on the environment. Mitigation measures have been developed which will be followed by Union.[80]

90. Finally, Union will obtain all necessary approvals from the Ministry of Environment for air, noise and site drainage works for the Proposed Parkway D Compressor. Union will implement an environmental inspection program to ensure that the recommendations in the ER, are followed. The Environmental Inspector will monitor construction activities and ensure that all activities comply with all conditions of approval.[81]

Issue C2: Are there any Outstanding Landowner Matters?

91. Here, again, there was no cross-examination at the hearing. In Union's submission, there are no outstanding landowner matters. The site has been purchased. For the pipeline, Union has obtained early access from landowners along the route to conduct all necessary preliminary surveys. Union will commence easement negotiations with individual landowners after Board

---

[77] Union Evidence, Section 12, p. 15

[78] Exhibit I.B1.UGL.EnergyProbe.30

[79] Union Evidence, Section 12, p. 15

[80] Union Evidence, Section 12, p. 15

[81] Union Evidence, Section 12, p. 15

approval is received. Based on preliminary discussions, Union does not anticipate any objections. Union will have all land rights in place prior to construction.[82]

92. Union's form of easement can be found at Schedule 12-10. The easement covers the installation, operation and maintenance of the pipeline. The easement is in a form previously provided to the Board and used by Union in the past on similar pipeline projects.

93. Union will implement a comprehensive program to provide landowners, tenants and other interested parties with information regarding the proposed pipeline. For over a decade Union has had in place a comprehensive landowner relations program which has proven successful on other projects.

Issue C3: Are the Proposed Facilities Designed in Accordance with Technical and Safety requirements?

94. Section 12 of Union's evidence details the design, installation and testing of the Proposed Pipeline. There was no cross-examination in relation to this issue at the hearing. All design, installation and testing of the pipeline and station facilities will be in accordance with the requirements of Ontario Regulation 210/01, Oil and Gas Pipeline Systems under the *Technical Standards and Safety Act 2000*. This regulation governs the installation of pipelines in the Province of Ontario.[83]

95. There were limited interrogatories on this issue. Prior to the hearing, parties indicated that they had no cross-examination on this topic and, again, there was none at the hearing.

Issue C4: Has there been Adequate Consultation with any affected First Nations or Métis Communities?

96. Two First Nations intervened in the application. Few interrogatories were asked, and there was no cross-examination at the hearing.[84]

---

[82] Union Evidence, Section 12, p. 20-22

[83] Union Evidence, Section 12, p. 2

[84] Union Evidence, Section 12, p. 23-26

97. Union has a longstanding practice of consulting with Métis and First Nations, and has programs in place whereby Union works with Métis and First Nations to ensure that they are aware of Union's projects and have the opportunity to participate in both the planning and construction phases of the project.

98. Union has an extensive database and knowledge of Métis and First Nations organizations in Ontario and consults with the Ministry of Natural Resources, Ministry of Aboriginal Affairs and Aboriginal Affairs and Northern Development Canada to ensure consultation is carried out with the most appropriate groups.

99. Union has signed a General Relationship Agreement with the Métis Nation of Ontario which describes Union's commitments to the Métis when planning and constructing pipeline projects.

100. Here, Union is conducting consultation or engagement meetings with the following, Métis and First Nations in relation to the project:

- Mississaugas of New Credit Consultation Committee
- Six Nations Elected Council Consultation Committee
- Haudenosaunee Confederacy Chiefs Council through their representative board of the Haudenosaunee Development Institute (HDI)
- Métis Nation of Ontario

101. During construction, Union will have inspectors in the field who are available as a primary contact to discuss and review any issues that may arise. When Union completes the necessary archaeological assessments for the Project, it will make that assessment available to any Métis or First Nations that requests a copy. Union will undertake construction in accordance with any mitigation measures recommended in the assessment.

102. Union is not aware of any outstanding issues raised by Métis or First Nations in relation to the Project.

Issues C5 and C6: Should Pre-Approval of the Cost Consequences of the Project and the TCPL Long Term Contracts be Granted?

103. Union's requests for pre-approval in this application can be divided as follows:

(1) a request for pre-approval of the cost consequences of all facilities associated with the development of the Project from ratepayers, effective January 1, 2015; and

(2) a request for pre-approval of the cost consequences of two anticipated TCPL long term short haul transportation contracts.

104. With respect to (1), the rationale for the request is fully explained in Union's Argument-in-Chief in EB-2012-0433. In brief, Union's request for pre-approval is entirely consistent with the terms of its now Board approved Incentive Regulation Framework. As Mr. Birmingham explained:[85]

> The incentive regulation framework actually contemplates this very process; that is, to the extent that it meets the criteria, Union would be required to apply for leave-to-construct and rate recovery all at the same time so that the Board could deal with all the aspects of the project and all of the impacts from the projects at a single time.
>
> So this would be the full regulatory review, which would include the typical leave-to-construct criteria and whether the project's in the public interest, as well as the section 36 rate-recovery application.

105. With respect to (2), Union's request is detailed at Section 11 of its evidence. Notwithstanding that precedent agreements have not been executed with TCPL, in Union's submission, pre-approval of the cost consequences of those contracts should be approved by the Board because:

(1) the significant construction planned by TCPL, Enbridge and Union, along with the long term contracting for transportation capacity, supports a fundamental change in how the Union North operating area will be served;

---

[85] Transcript Volume 2, September 16, 2013, p. 138

(2) the long term TCPL contracts are directly related to and support the construction of new facilities planned by Enbridge and TCPL as contemplated by the Board's guidelines;

(3) there are significant economic benefits of approximately $10 million annually to the ratepayers in Union North that would otherwise not occur;

(4) the contracts represent significant financial and term commitments by Union; and

(5) the term and volume associated with the anticipated contracts are known and the remaining aspects of the contract are standard and will be comparable to other TCPL precedent agreements executed by Union.[86]

106. Moreover, as Union explained in response to questions for the Board, from a timing perspective this application is, in many respects, a better regulatory forum in which to consider the cost consequences:

> MS. CHAPLIN: And so what proportion do these two -- I believe it's two contracts -- represent of the total contractual commitment between Union and TransCanada?
>
> MR. ISHERWOOD: And TransCanada? Our total long-haul capacity today is 180,000 gJs per day, and these contracts are 70,000. So that would be almost a third, or 40 percent.
>
> The dilemma we have is, when you go in the TCPL open-season process, it's actually a binding bid, so we become bound to the TransCanada process before we have any chance really to get OEB approval because of the timing and difference, so we're in a bit of a better spot today, because we're asking for pre-approval now, and won't be actually signing those contracts for probably a month or two, by the time they get issued and signed. So we're in a much better spot.[87]

Issue C7: What Board Conditions, if any, are Appropriate?

107. In Union's submission, the Board's standard conditions of approval are appropriate and the only conditions which are necessary in the circumstances. As described above, Union will

---

[86] Union Evidence, Section 1, p. 4; Transcript Volume 4, September 19, 2013, pp. 28-30

[87] Transcript Volume 4, September 19, 2013, p. 30

not undertake construction of the Proposed Pipeline until after TCPL has received approval from the NEB for the King's North Project. The Proposed Parkway D Compressor is not dependent on that project and is required to meet Enbridge's distribution demands in any event. As reflected in Exhibit I.C7.UGL.Staff.42, Union has requested that the date for Condition 1.2 (the date for construction of the Proposed Pipeline) be changed to December 31, 2016 to accommodate any delay associated with the King's North project.

Conclusion

108. In conclusion, Union submits that the Project is in the public interest and should be approved by the Board. The Project provides for market access to emerging supply basins located closer to Ontario and other regional markets; addresses incremental demands on the Dawn-Parkway System; results in significant benefits for energy consumers in Ontario and elsewhere including Union's in-franchise and ex-franchise customers; and represents rational development of Union's facilities.

109. For all of the above reasons, Union respectfully requests the approvals set out in the application for an in-service date of November 1, 2015.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

[original signed by]

Crawford Smith and Myriam M. Seers
Lawyers for Union Gas Limited