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

(PARKWAY WEST PROJECT, EB-2012-0433)

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1. This is Union Gas Limited's ("Union") Argument-in-Chief in EB-2012-0433.

A. Overview

2. By application dated January 29, 2013 and later amended July 3, 2013 and August 23, 2013 for a cost update, Union Gas Limited ("Union") applied to the Ontario Energy Board ("OEB" or "Board") for approval of the following three requests:

(1) a section 36 application requesting approval for rate recovery of the full cost of the Parkway West investment effective January 1, 2014; and approval of an accounting order to establish the Parkway West Cost Deferral Account;

(2) a section 90 application for leave-to-construct a NPS42 pipeline from the existing Parkway Compressor Station ("Parkway") to the proposed Parkway West Compressor Station ("Parkway West"); and

(3) a section 91 application for leave to construct a measurement and control station which will connect to the Enbridge pipeline system; for connections to Union's Dawn-Parkway system to flow gas to the proposed Parkway West site; a loss of critical unit compressor; and general infrastructure and land necessary to construct and operate Parkway West site.

B. Background

3. The proposed Parkway West Project (the "Project") provides for the construction of new facilities on a new site immediately west of Highway 407, directly across from the existing Parkway Station. As part of this project Union is proposing a loss of critical unit ("LCU") compressor for the discharge volumes that flow through Parkway, the provision of an additional pipeline connection to Enbridge, and the provision of upgrades to existing Union transmission pipelines and other required infrastructure.

4. Union proposes to start construction of these facilities in 2013 with the site development and the construction of the additional pipeline feed to Enbridge will follow in 2014. This feed connects to Enbridge's Parkway West Gate Station. The loss of critical unit compressor will be constructed to be in service by 2015.

5. Parkway was developed in 1989 to meet increased customer demand as well as address physical limitations at the then existing Trafalgar Compressor Station. Parkway currently provides a significant connection to the TransCanada Pipelines Limited ("TransCanada") Mainline system as well as a critical connection to the Enbridge distribution system.

6. North American natural gas markets are experiencing significant change. While production from traditional mature basins in Alberta has been in decline, there has been prolific growth in emerging gas supplies from gas formations onshore near the Gulf of Mexico, the mid-continent and Appalachia, and from coal bed methane and tight gas formations in the U.S. Rockies.

7. There are major implications specific to Ontario from the changing North American gas supply dynamics, which are further described in Union's Argument in Chief in EB-2013-0074.

- Particularly relevant to this application, the changing gas supply dynamics results in significant growth in the physical flow of natural gas through Parkway; and

8. Parkway is essential to the movement of natural gas in Ontario. The Project will ensure the continued reliable movement of natural gas.

9. Parkway is the only site on the Dawn-Parkway System which does not have loss of critical unit coverage. The construction of a compressor to provide reserve horsepower will ensure that Union will be able to meet its contractual commitments and ensure that natural gas continues to be delivered to customers downstream of Parkway, including those customers which will be served by Enbridge's GTA Project application.

10. If there were a major failure at Parkway, Union would not be able to meet its contractual commitments. To address this significant operational risk, Union proposes to build an LCU compressor and an additional connection to Enbridge's system. Loss of a critical unit could result in approximately 150,000 to 225,000 GTA customers losing gas service, including all

Portlands Energy Centre, one of seven major gas-fired generation plants located downstream of Parkway.[1]

11. In summary, the Project addresses the increased demands at Parkway resulting from the changing dynamics in the flow of natural gas in North America. It allows for the continuation of reliable service to Union's customers. The Project has the support of many of Union's major shippers including TCPL, Enbridge and Gaz Metro, who will bear most of the costs of the proposed facilities and the resulting toll is within the historic range of tolls for Dawn Parkway service. Parkway West has been planned and designed following appropriate, consistent engineering principles and will not create any long term significant environmental impacts. Union has the lands and resources in place to complete the Project.

12. The following argument has been organized based on the Board's Issues List.[2]

Issue A1: Are the Proposed Facilities Needed? / Issue A5: Is the proposed timing of the various components of the project appropriate?

13. Loss of critical unit coverage is important to ensure reliable service to Union's customers for natural gas deliveries intended for existing and growing markets in Ontario, Québec, Atlantic Canada and the U.S. Northeast. It has become of critical importance now because: i) natural gas flows through the Parkway compressor into the TransCanada system now occurs on a year-round basis; and ii) natural gas flows through Parkway have increased substantially and will continue to increase in the future.

14. ***Historical background.*** Historically, during the summer months, the direction of natural gas flow at Parkway was from the TransCanada system into Union's Dawn-Parkway System as customers delivered natural gas to Dawn to fill storage. In the winter months, the direction of flow was from Union's Dawn-Parkway system into the TransCanada system to meet peak winter demand in the GTA, eastern Ontario, Québec and the U.S. Northeast. In 2005/2006, design-day flow through Parkway compression into the TransCanada system was less than 0.54 PJ/d and only required capacity provided by the Parkway A compressor. When loss of critical unit protection was provided for Dawn and Lobo/Bright, design day throughput of the Dawn-

[1] Section 8 page 68-70 and Exhibit I.A1.UGL.CCC.2

[2] Procedural Order 2, Appendix A

Parkway System was 2.3 PJ/d. Loss of critical unit protection was not deemed critical for Parkway at flows of less than 0.54 PJ/d on a design day.

15. As more natural gas for eastern markets was sourced at or transported through Parkway, the capacity of the Parkway A compressor was exceeded and a much larger Parkway B compressor was constructed and placed into operation in 2007. This increase in demand was largely supported by i) U.S. Northeast utilities and Gaz Métro adjusting natural gas supply portfolios and shifting from long haul transportation to short haul transportation, resulting in an increase in their Dawn-Parkway transportation capacity; and ii) Ontario gas-fired power generator growth.

16. ***Gas now flows through Parkway in one direction year-round.*** Since 2009, the direction of flow at Parkway has consistently been from the Dawn-Parkway System into the TransCanada system during the summer and winter months, which has required the use of the Parkway compressors more frequently. This significant change to year-round discharge through the Parkway compressors into TransCanada's system started in 2009. This increased demand for Dawn-Parkway capacity and this shift in flow pattern resulted in Union identifying the potential need for loss of critical unit protection at Parkway.

17. ***Flows have increased substantially.*** Between November 1, 2008 and March 31, 2009, the compressor unit at Parkway (Parkway B compressor) operated 33% of the time. Between November 1, 2012 and March 31, 2013, this same compressor operated over 90% of the time[3]. With such a heavy reliance on the operation of the Parkway B compressor, a major failure of that critical unit would impact markets in Ontario, Québec and the U.S. Northeast, including residential, commercial, power generation and industrial customers.

18. Starting in 2011, Union was able to re-purpose Dawn-Kirkwall turn-back capacity, largely to interconnecting pipelines, largely as Dawn to Parkway and Kirkwall to Parkway capacity. Design day demand for deliveries into the TransCanada system reached approximately 1.9 PJ/d in 2011/2012.

[3] Exhibit I.A1.UGL.CCC.2

19. ***Flows will continue to increase.*** With system modifications and expansions in Pennsylvania, New York and Ontario, Marcellus natural gas production was able to access Ontario through Niagara and reach Ontario markets downstream of Parkway. With these demands, deliveries to TransCanada at Parkway are forecast to grow further to approximately 2.3 PJ/d on design day by November 1, 2013. This quantity is similar to the design day throughput on the Dawn-Parkway System when loss of critical unit protection was installed at Lobo/Bright and Dawn and is within 0.2 PJ/d of the maximum capability of the two existing Parkway compressors. Growth in 2015 will add a further 0.8Pj/d for Enbridge and 0.35 Pj/d for Union and Gaz Métro, which will take deliveries to TransCanada at Parkway to over 3Pj/d.

20. ***Impact of potential loss of critical unit.*** At Parkway, the critical unit is the Parkway B compressor. As of 2014/2015, a loss of the critical unit at Parkway would result in reduced design-day throughput to the TransCanada system of approximately 1.0 PJ/d. At maximum capability of the existing compressors, a loss of the critical unit at Parkway would result in reduced design day throughput of approximately 1.1 PJ/d. Enbridge modeling indicates that such a loss of critical unit results in a loss of upstream supply of 0.3-0.4 PJ/d and a loss of service to approximately 150,000-225,000 GTA customers. Impacts as a result of a loss of critical unit event at Parkway are more thoroughly discussed in Union's pre-filed evidence.[4]

21. ***The Project is needed now.*** This project is needed now and should proceed. As Mark Isherwood, Union's Vice-President of Business Development, Storage and Transmission, testified:

> MR. QUINN: But if we're looking for a stopgap solution that would bridge us for a year, you're still saying that your position is that that must be in place to have the worst-case scenario of the compressor being out of service for months?
>
> MR. ISHERWOOD: That's correct. Our proposition here is that the gas volumes going through Parkway are significant enough now that Parkway has become critical infrastructure. And we need to find a way to be able to protect that infrastructure for the GTA and

[4] Section 8, pages 68-70.

> the rest of Ontario and Quebec markets. So you need a physical solution to move that gas.[5]

22. The Project is not dependent on other projects going ahead. The facilities and timing of the Project are not impacted by a lack of pipeline capacity expansion downstream of Parkway or a delay in such a project. The Project does not depend on system growth, but rather is predicated on providing loss of critical unit coverage for the compression at Parkway and increased reliability for the substantial interconnection with Enbridge at Parkway. In addition, a rejection of the proposed Enbridge GTA Project or a delay in the proposed Enbridge GTA Project does not impact the facilities or timing of Union's proposed Parkway West Project.[6]

23. ***LCU coverage is a common feature of system design.*** Loss of critical unit protection is a common feature of system design for storage and transmission companies. Customers who contract for firm capacity expect firm deliveries and system design must ensure firm demands are met. Industry practice for system design is to use critical unit coverage, percentage reserve margin or a combination on the entire system. Union's system is designed with loss of critical unit protection due to the nature of the system; a relatively short system which moves a large volume of gas. As a result, the impact of an outage anywhere on the Dawn-Parkway system is felt almost immediately and Union has very little line pack to mitigate short-term outages.

24. ***The Board has approved LCU coverage.*** As outlined in Section 5 of Union's pre-filed evidence, loss of critical unit was introduced by Union during EBRO 462, with a proposal to construct a new compressor at the Lobo station for protection covering Dawn-Parkway in-franchise and ex-franchise firm transportation requirements. Loss of critical unit protection costs were approved for inclusion in Union's rate base. The Decision with Reasons from EBRO 462 stated:

> In reaching its finding, the Board has been mindful of the fact that accidents and equipment failures do occur. By nature they are unpredictable both as to timing and extent. A complete failure of the LCU (Bright compressor) could have serious consequences for all of Union's customers, especially if the outage is prolonged. A major shutdown could not, according to the evidence, be confined

[5] Transcript Sept. 17, Vol. 3, p. 19, See also Exhibit I.A1. UGL.Staff.7, 8

[6] Exhibit I.A5.UGL.CCC.26

> to any particular class of customers. Interruptible customers cannot be relied upon to get off the system quickly enough and line-pack gas is of little, if any, use. Most persuasively, the need for speedy reaction is apparent from the evidence which referred to the compressor problems of January, 5, 1988. The Board has concluded that, as a safe and reliable provider of distribution, sales, transmission and storage services, Union requires the type of protection that it is seeking. Accordingly, the Board finds that the cost of LCU protection, as proposed by Union in this case, is appropriate for inclusion in rate base.

Issue A2: Do the proposed facilities meet the Board's economic tests / Issue B5: Should the pre-approval to recover the cost consequences of the proposed facilities be granted?

25. Union is seeking an order from the Board, pursuant to Section 36 of the Act, for pre-approval of recovery of the cost consequences of all facilities associated with the development of the Project from ratepayers. Specifically, the facilities for which Union is seeking cost recovery pre-approval are: a new NPS42 pipeline to connect the existing Parkway Station with the Parkway West site, connections to Union's Dawn-Parkway system to flow gas to Parkway West, one measurement and control station which will connect to the Enbridge pipeline system, a loss of critical unit compressor, station pipelines that will connect the different facilities, replacement of the NPS26 and NPS34 piping in the vicinity of the Parkway West site and general infrastructure necessary to operate the new station. The total estimated Project costs including contingencies and interest during construction are $219,430,000. A breakdown of these costs is available at the Updated Schedule 11-1, as filed August 23, 2013.

26. Union is seeking pre-approval of the recovery of the costs consequences of the Project for the following reasons

27. ***Size of project.*** First, the Project is the single largest project in Union's history. It is an important reliability project requiring a significant capital outlay, without any new, incremental contractual commitments or revenues. At $219.4 million, the Project is comparable to Union's entire annual maintenance capital budget. The revenue requirement associated with the Project is approximately $17.7 million; in comparison, the materiality level used by Union's external auditors for the annual financial statement audit is less than $5 million. On September 19, Mr.

Birmingham explained the necessity of assurance of rate recovery in response to a question from Mr. DeRose:

> Yes. It's our evidence, Mr. DeRose, that we need both assurance of rate recovery and assurance around the timing of that rate recovery. And if we can't get those two things, because of the magnitude of these projects, we wouldn't be able to proceed with the project.[7]

28. ***Need for certainty of cost recovery.*** Second, Union is not able to proceed with the development of the Project without reasonable certainty of cost recovery. As outlined in Union's pre-filed evidence, the Project will result in an increased allocation of costs to ex-franchise customers' rates of approximately $18.6 million.[8] An early finding by the Board will allow those ex-franchise customers, who are primarily utilities, to incorporate the service and rate impacts into their future regulatory filings.

29. The ex-franchise customers who will pay for the cost of the Project support the Project. Enbridge, GMI and TransCanada have all indicated that they support the project:

(1) Enbridge stated in their evidence at Exhibit A Tab 3 Schedule 1 page 10 of 14:

> Enbridge is of the view that physical assets such as standby compression at Parkway are necessary to ensure acceptable levels of reliability, relative to the other options discussed in Union Gas' 2013 Rates proceeding, EB-2011-0210, for transportation services that are designated firm.

(2) GMI stated in their evidence at Exhibit L.EGB.SCGM.1 page 11 of 16:

> Gaz Métro is supportive of the Parkway West Project since it will increase security of supply for its customers and support its efforts to shift its structure of supply from long-haul to short-haul transportation services using the Dawn to Parkway system.
>
> It is Gaz Métro's belief that the construction of a LCU protection compressor will mitigate the critical operational risk of a major failure at Parkway as this critical infrastructure is essential to move gas in Ontario and to ex-franchise markets.

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[7] Transcript, Volume 4, September 19, 2013, p. 56

[8] Schedule 12-2 updated August 23, 2013

(3) In a letter from TransCanada to Union Dated February 8, 2013, TransCanada indicated that it is not opposed to the addition of LCU protection at the Parkway West site.[9] It provided this letter before TransCanada and the Eastern local distribution companies entered into the Term Sheet on September 10, 2013.

30. ***Regulatory efficiency.*** Third, the Board's determination of the appropriateness of the cost consequences in this proceeding represents an efficient use of regulatory time and resources, and will benefit future Board panels as they incorporate the rate and operational impacts of the Project into Union's prospective rates and other applications. Further, it is more efficient for the Board to address all known impacts from the Project at once, and provide a predictable rate impact to Union's customers and other stakeholders. By combining the Section 36 rate recovery Application with the facilities Application, Union has provided a complete evidentiary basis for the Board to evaluate the impacts of the Project. As explained at Exhibit I.B5.UGL.VECC.3 part c):

> For the Board to approve Union's request for pre-approval to recover the costs consequences associated with the Parkway West Project, the Board needs to understand how the total revenue requirement increase impacts all rate classes. Although in-franchise rate classes in total will see a reduction of approximately $2.1 million, some individual in-franchise rate classes will see rate increases.

31. The rate impacts by rate class are provided at EB-2012-0433, Schedule 12-2 Updated and the in-franchise rate class reduction has been updated to $0.9 million.

32. Union has also applied for a deferral account to capture the variance to the estimated costs. As Mr. Birmingham testified at the hearing:

> MR. DeROSE: Okay. Thank you. And the final point on the pre-approval is this. How does your proposal for pre-approval of costs deal with cost overruns? If there are cost overruns, do you still have the ability to come back to the Board to get approval of those

[9] Exhibit I.A4.UGL.CCC.23 Attachment 1

> cost overruns, or does the pre-approval of costs assume that you are taking the risks of cost overruns?
>
> MR. BIRMINGHAM: It is the former, Mr. DeRose. So we have requested a deferral account for cost variances associated with these projects.
>
> Whether they are below or above the amount that the Board would pre-approve, the difference would get recorded in a deferral account.
>
> That deferral account will form part of the application that we would normally make to the Board for the annual disposition of our non-commodity deferral account balances. And the Board will have their review of those and determine the appropriate disposition at that time.
>
> MR. DeROSE: And so cost overruns would be subject to a -- what I would describe as a prudence review. I appreciate that there was some debate about what that means, but there would be a prudence review on the cost overruns recorded in the deferral account; is that --
>
> MR. BIRMINGHAM: Or cost underruns. That's true.
>
> MR. DeROSE: Or cost underruns. Fair enough.[10]

33. ***The Project meets the criteria for Y-factor treatment***. On July 31, 2013, Union filed an application for a multi-year Incentive Regulation Mechanism ("IRM"), EB-2013-0202, based on a Settlement Agreement reached between Union and stakeholders. Following a Notice period and Oral Hearing, the Board approved the Application as filed on October 7, 2013. In Section 6.6 of the Settlement Agreement, filed as Exhibit A, Tab 2 of the IRM Application, the parties agreed to treat Major Capital Additions as Y factors during the IRM period provided that they meet the following eight criteria:

(1) The project will result in a minimum increase, or decrease of $5 million in net delivery revenue requirement;

[10] Transcript Sept 19, 2013, Volume 4 p. 57

(2) The capital cost of the project exceeds $50 million;

(3) The project is outside the base rates on which the incentive regulation framework is set;

(4) The project must be needed to serve customers and/or to maintain system safety, reliability or integrity and cannot reasonably be delayed, and is demonstrated to be the most cost effective manner of achieving the project's objectives relative to the reasonably available alternatives;

(5) The project will be identified to stakeholders and the Board as soon as possible, including the year's stakeholder review session where practical;

(6) The project will be subject to a full regulatory review equivalent to a leave to construct proceeding, in which the applicant must demonstrate need, safety or reliability purposes, and economic viability prior to the inclusion in rates;

(7) Subject to direction otherwise from the Board, Union will allocate the net revenue requirements using 2013-Board approved cost allocation methodologies;

(8) The project will include a deferral account request to capture any difference between the forecast annual net delivery revenue requirement and the actual net delivery requirement for each year of the IRM term for which the project is in rates.

34. The Parkway West Project as filed meets the above criteria for Y factor treatment during the IRM period. The Project exceeds the $5 million annual revenue requirement and $50 million capital cost thresholds. Further, as set out above, the Project is needed to serve customers and to maintain system safety, reliability or integrity and cannot reasonably be delayed, and is demonstrated to be the most cost effective manner of achieving the project's objectives relative to the reasonably available alternatives. This Project is explicitly discussed on Page 18 of the IRM Settlement Agreement as an example of a Project that will be evaluated based on the eight criteria during the IRM period. The parties to the settlement Agreement agreed that the Project meets the eight criteria, provided there is no material change made by the Board.

35. As explained by Mr. Birmingham at the hearing:

> 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.[11]

Issue A3: Are the costs of the facilities and the rate impacts to customers appropriate?

36. The total estimated cost of the project is $219.4 million, making it the single largest project in Union's history. The Project has the support of many of Union's major shippers, including TransCanada, Enbridge and Gaz Métro, who will bear most of the costs of the proposed facilities.

37. The largest full-year revenue requirement associated with the Project (rate base, return, interest, tax, depreciation and O&M) is approximately $17.7 million.[12]

38. This results in a bill impact for the average Rate M1 residential customer in Union South of approximately ($0.84) reduction and for the average Rate 01 customer in Union North of approximately ($0.33) reduction.[13] The resulting M12/C1 Dawn-Parkway rate is $0.089 GJ/day compared to the current $0.078 GJ/day.[14]

39. Union is not proposing any changes to the allocation methodology of Dawn-Parkway transmission system costs, including the allocation of Parkway 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 Parkway

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[11] Transcript, September 16, 2013, Volume 2, p. 138
[12] Schedule 12-1 updated August 23, 2013
[13] Schedule 12-3 updated August 23, 2013
[14] Schedule 12-5 updated August 23, 2013

Station and the development of the Project. Based on the current Board approved allocation of Dawn- Parkway Costs, in-franchise rate classes are allocated approximately 16% of the costs directly attributable to the Project. The remaining 84% of costs directly attributable to Parkway West are allocated to ex-franchise rate classes.[15]

40. The same land and facilities are required for the Parkway West project, whether or not Parkway D is required. As Ms. George, Union's Director, Major Projects, testified:

> MS. GEORGE: So the site infrastructure costs would be of the same magnitude, and we would have bought the same size land because we do anticipate the future growth at Parkway, and land is very difficult to find in that area for this type of an application. So the land would have been the same size.
>
> The other infrastructure costs are things like connecting to our Dawn-to-Parkway system, which is required whether you build one or two compressors, building the pipeline header system and building some of the other auxiliary systems that are required in a new site.
>
> MS. CHAPLIN: So if you were not to do Parkway D at all, you're saying you would still have chosen as large -- purchased as large a site in anticipation of future growth, and all of the other site infrastructure projects would still be the same if you were just doing the loss of critical unit compressor?
>
> MS. GEORGE: Yes. Everything that was listed under a $103 million is still required regardless.[16]

41. The bill impacts are the same regardless of the scenarios proposed to allocate some the Parkway West project costs to the B-K/ Parkway D project. In response to a question about what the directional impact would be on which customers would bear the costs, Mr. Tetreault responded that there would be virtually no impact:[17]

> MR. TETREAULT: Dr. Higgin, I would not expect there to be much, if any, rate impact associated with that. Reallocating the

[15] Evidence Section 12, p. 103 paragraph 8

[16] Transcript, Volume 4, September 19 p. 75 lines 21-28 plus p. 76 lines 1-11

[17] Transcript, Volume 4, September 19, 2013, page 66 lines 21-28, Page 67 lines 1-6

> costs from one project to the other will have an impact on the individual impacts of the individual projects. However, ultimately we'll be combining both projects and allocating the costs of both projects based on Board-approved cost-allocation methodologies, so when you combine them, I would expect the impact to be virtually nothing.

42. Regarding rate implementation, effective January 1, 2014, Union proposes to build the annual costs associated with the Project into in-franchise delivery rates and ex-franchise transportation rates based on the cost estimates included in this application.

43. To align with an anticipated 2014 to 2018 Incentive Regulation term, Union also proposes to adjust in-franchise and ex-franchise rates on an annual basis from 2014 to 2018 in order to recover the estimated annual costs associated with the Project. The proposed annual rate adjustments are set out at Schedule 12-6 Updated August 23, 2013.

44. Union proposes to track any variance between what is approved in rates for the Project and the actual annual revenue requirement of the Project in a new deferral account. Union will dispose of any balance in the deferral account as part of Union's annual non-commodity deferral account proceeding. The proposed draft accounting order is provided at Schedule 12- 7 (August 23rd, 2013 update).

Issue A4: What are the alternatives to the proposed facilities?

45. Union reviewed a number of alternatives to determine the best option to meet the objectives of the Project. The alternatives included physical alternatives as well as contracting for services on other pipeline systems. Union met and consulted with stakeholders to review the options. The Project best addresses the relevant decision criteria. As described in Section 10 of Union's pre-filed evidence, Union evaluated the alternatives for loss of critical unit protection based on reliability, term, volume of protection provided, notice, cost and other relevant factors as necessary. Union reviewed and evaluated the following eight alternatives to provide LCU protection at Parkway:

Alternative 1: Install Reserve Horsepower at Existing Parkway Site

Alternative 2: Increase Compression at the Bright Compressor Station

Alternative 3: Purchase Spare Components

Alternative 4: Install Reserve Horsepower at New Parkway West Site (the Project)

Alternative 5: TCPL Relocates Existing Compressors to Parkway

Alternative 6: STFT Service from Empress Plus Exchange

Alternative 7: Great Lakes Backhaul and TCPL FT Service

Alternative 8: Kirkwall to Parkway Service[18]

46. On September 16, Mr. Isherwood explained the necessity for a physical solution, as opposed to a market-based solution, to provide LCU protection:

> But the conclusion we came to was -- and especially with or without the oil line conversion -- the service options just don't work, because gas is trapped on the wrong side of Parkway. It's trapped at Dawn, essentially. And to get it to downstream markets, you would have to do either a physical movement back on Great Lakes, back-hauls, up -- if you look on that map there, basically Dawn, have all the way back up to Emerson, and back across northern Ontario, which doesn't make a lot of sense, and could not be done very cheaply for that volume or done through a market exchange, which, we actually went out to open season and had no interest at all from the market to provide that exchange. So the service on TCPL was something we did explore, and I think when we came to the conclusion with TCPL at the end of January, we all agreed that the best option at Parkway was an LCU.[19]

47. The physical alternatives (alternatives 1 to 3) were reviewed and considered not to be viable. With respect to the first alternative, due to lack of available space, Union cannot construct a third compressor at the existing Parkway Compressor Station while meeting noise emission requirements and ensuring appropriate spacing between compressors. The second alternative was quickly ruled out because the order of magnitude of the work would be in the $1 billion range. The third alternative was also ruled out, because it does not provide true loss of critical unit protection.[20]

[18] Pre-filed evidence, Section 10 and Schedule 10-1

[19] Transcript, Volume 2, September 16, 2013, p. 153 line 1-17

[20] Exhibit I.A4.UGL.SEC.13; Pre-filed evidence, Section 10, pp. 88-95

48. In its response to an interrogatory at Exhibit I.A4.UGL.Staff.23, Union addressed the question about whether one compressor could meet the requirements for LCU (Parkway West) and for growth (Parkway D). The projects are not amenable to a combined solution as they address different needs. The Parkway West Project is driven by the need to increase system reliability through the use of LCU compression and measurement, and as a result the capacity created by that equipment must remain in reserve. The Brantford to Kirkwall project is a growth project. If one solution were developed for both reliability and growth, the compressor would need to operate to meet growth volumes and would not provide LCU protection. The Parkway C LCU compressor is a similar sized compressor as the existing Parkway B compressor and the proposed Parkway D compressor, and is larger than the existing Parkway A compressor. So the Parkway C LCU compressor can come on line and protect against a failure of any of the other compressors on the 2 Parkway sites. A larger compressor doing dual duty of an LCU compressor and a growth compressor could not protect against a failure of itself. This point was further detailed by Mr. Rietdyk during the hearing in cross-examination by Mr. Brett:

> We need an LCU compressor to have the full reserve capacity of the largest compressor on the site. So it can't put one twice the size of it there. So that's why we need C and D, to cover off our failure of one of the others.[21]

49. As discussed in EB-2012-0433, Section 10, Union also believes that there is no alternative that can provide reliability and resilience for its Parkway deliveries into the TransCanada system as effectively and cost efficiently as the physical loss of critical unit protection proposed in the Parkway West Project.[22]

50. Union has evaluated all alternatives and to provide LCU protection for Union's system the Project as proposed is the most appropriate and prudent alternative.

Issue B1: Do the facilities address the OEB Guidelines for Hydrocarbon Pipelines as applicable?

51. Stantec Consulting Ltd. prepared the Environmental Reports (ERs) for the proposed Project. The results of the ERs indicate that the location of the proposed Project is

[21] Transcript Reference September 17, 2013 Volume 3, p. 132
[22] Exhibit I.A1.UGL.CCC.2 p. 3

environmentally acceptable. Union believes that by following its standard construction practices and adhering to the mitigation measures identified in the ERs, construction of the Project will have negligible impacts on the environment. No significant cumulative effects are anticipated from development of the proposed Project.[23]

52. A copy of the ER was submitted to the Ontario Pipeline Coordination Committee ("OPCC") on November 21, 2012. Also, a copy of the ER was sent to local municipalities, Conservation Halton, First Nations, Métis and upon request to interested parties.

53. There were no significant issues raised by the OPCC review.

54. When the Project is constructed, the most current construction practices will be followed.

55. Union will ensure that the recommendations in the ER, commitments and the conditions of approval are followed. An environmental inspector will monitor construction activities and ensure that all activities comply with all conditions of approval.

56. The results of the ER indicate that the environmental and socio-economic effects associated with construction of the Project are generally short-term in nature and minimal. There are no significant cumulative effects as a result of the Project construction.

57. There were limited interrogatories regarding Issue B1. Before the hearing, interveners indicated they had no cross-examination questions on this topic, and there were none at the hearing.

Issue B2: Are there any outstanding landowner matters for the proposed facilities?

58. The station property site has been purchased and there are no outstanding landowner concerns.

59. For the proposed new pipeline, Union will require new permanent and temporary land rights. Union will require crossing permits or agreements with utilities that cross the pipeline route. There are two directly affected landowners, Hydro One Networks Inc. (Hydro One) and her Majesty the Queen in the Right of Ontario, administered by Infrastructure Ontario.

[23] Pre-filed evidence , Section 13 p. 113-115

60. Union has met and discussed the project with the landowners, Hydro One and Infrastructure Ontario, and with the Ministry of Transportation and 407ETR, who have existing rights within the Highway 407 corridor. While agreements have not been finalized with these entities, they have not identified any significant concerns or issues with the project.

61. Union's form of easement is in evidence at Schedule 13-7. This easement covers the installation, operation and maintenance of one pipeline.[24]

62. As with issue B1, there were limited interrogatories on Issue B2, land related matters. Prior to the hearing parties indicated they had no cross examination on this topic and there was none at the hearing.

Issue B3: Are the proposed facilities designed in accordance with current technical and safety requirements?

63. Section 13 of the pre-filed evidence addresses details of design, installation and testing. All design installation and testing of the natural gas pipeline and station facilities is 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.

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

Issue B4: Has there been adequate consultation with any affected First Nations or Metis communities?

65. There were very few interrogatories on Union's pre-filed evidence regarding First Nations and Metis Nations consultation. There was no cross-examination at the hearing. Two first nations intervened in the proceeding and neither submitted interrogatories to Union. Union has a long standing practice of consulting with Métis and First Nations, and has programs in place whereby Union works with them to ensure they are aware of Union's projects and have the opportunity to participate in both the planning and construction phases of the project.

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[24] Pre-filed evidence, Section 13, p. 115-116

66. Union has an extensive database and knowledge of First Nations and Métis Nations organizations in Ontario and consults with the Tribal organizations and the databases of 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.

67. 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.

68. Union notified First Nations and Métis Nations by letter regarding the Project on two separate occasions. Union is conducting formal consultations with the following First Nations and the Métis Nation for the Project:

- Six Nations of the Grand First Nation
- Mississaugas of the New Credit First Nation
- Métis Nation of Ontario

69. During construction, Union will have inspectors in the field who are available to First Nation's and Métis organization as a primary contact to discuss and review any issues that may arise during construction. When Union completes the necessary archaeological assessments for the project, it will consult with and provide the result of the surveys to any First Nations or Métis Nations upon their request.[25]

70. Union is not aware of any outstanding issues raised by First Nations or Métis organizations.

Issue B6: If the Board approves the proposed facilities, what conditions, if any, are appropriate?

71. Union accepts the standard conditions of approval for s. 90 and s. 91 applications as proposed by Board staff in Exhibit I.B6.UGL.Staff.25/26, with the exception of a date correction

[25] Pre-filed evidence, Section 13, p. 118-121

to December 31, 2015 as noted in response to Exhibit I.B6.UGL.Staff.25. The conditions proposed by Board staff are consistent with those granted by the Board over the past five years. No other conditions are required.

72. In particular, the Project is not contingent on Union's Brantford-Kirkwall project or on Enbridge's GTA Project in this proceeding, or on TransCanada projects.

Conclusion

73. In summary, the Project addresses the increased demands at Parkway resulting from the changing dynamics in the flow of natural gas in North America. It allows for the continuation of reliable service to Union's customers. Parkway West has been planned and designed following appropriate, consistent engineering principles and will not create any long term significant environmental impacts. Union has the lands and resources in place to complete the Project.

74. Union believes the Project is in the public interest and 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