

April 22, 2014

By RESS & Courier

Ms Pascale Duguay,
Manager, Facilities
Ontario Energy Board
Suite 2700, 2300 Yonge Street
Toronto, Ontario
M4P 1E4

Dear Ms Duguay:

**Re: Union Gas Limited (“Union”)
Red Lake Project
Board File # EB-2011-0040, 0041, 0042**

Pursuant to Conditions 1.6 for Phase 1 and condition 1.9 for Phase 2 of the Board’s Conditions of Approval for the above-noted project, please find enclosed Union’s Post Construction Financial Report, Variance Explanations, and an Aid to Construct summary.

The most significant variance in the Phase 1 portion of the project was that construction took place over two years. The additional costs of constructing the pipeline over two years were \$3,283,536.

Sincerely,

William Wachsmuth
Regulatory Projects
Encl.

cc: Z. Crnojacki (Chair, OPCC)

Cost and Aid to Construct Summary,

Red Lake Project

Phase 1 Main Line Pipe (including upsizing pipe to serve Municipality), and Service to Goldcorp,

In Union's pre filed evidence, Union identified that the main line construction costs for the Red Lake project would be \$26.9 M. with an AID to construct of \$25.6 M. This AID to construct was made up of \$18.6 M to complete the minimum facilities necessary to serve the Goldcorp load and \$7 M to serve the town load. Union expects to receive \$1.3 M in revenues from this phase of the project

The actual costs of main line construction were \$31.2 M. This increases the AID to construct to 29.9 M, this is to be collected from for Goldcorp (\$21.8 M) and the Municipality (\$8.1 M).

| | Proposed (Million) | Actual (Million) |
|---------------------------|--------------------|------------------|
| Projects costs | \$26.9 | \$31.2 |
| Goldcorp contribution | \$18.6 | \$21.8 |
| Municipality contribution | \$7.0 | \$8.1 |
| Union Gas contribution | \$1.3 | \$1.3 |

Phase 2 Municipal Distribution Systems

In Union's pre filed evidence, Union identified that the Municipal Distribution System construction costs for the Red Lake project would be \$12.5 M.

Union collected \$10.7 M in AID for the town facilities (including upsizing of mainline pipe to serve the municipality). The following organizations contributed to the project: Goldcorp \$2.15 M, Municipality \$.75 M, Province of Ontario \$4.0 M, and Fed Nor \$2.7 M. Union expects to receive \$8.7 M in revenues from this phase of the project

The actual costs of the Municipal Distribution System construction were \$12.8 M. Union is unable to collect any additional money from these organizations.

| | Proposed (Million) | Actual (Million) |
|------------------------------------|--------------------|------------------|
| Cost for local distribution system | \$12.5 | \$12.8 |
| Cost to upsize Mainline | \$7.0 | \$8.1 |
| Total Project costs | \$19.5 | \$20.9 |
| | | |
| Goldcorp contribution | \$2.15 | \$2.15 |
| Municipality contribution | \$0.75 | \$0.75 |
| Ontario | \$4.0 | \$4.0 |
| Fed Nor | \$2.7 | \$2.7 |
| Union Gas contribution | \$8.7 | \$8.7 |

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Red Lake Project – Phase I

TOTAL ESTIMATED and FINAL PROJECT COSTS

| <u>Pipeline and Equipment</u> | <u>Estimated Costs -Phase I</u> | <u>Final Costs</u> |
|--|--|-------------------------------|
| Pipe NPS 8, 6, 4 & 2 | \$ 3,525,305.00 | \$ 3,504,683.37 |
| Valves, Fittings, misc. | \$ 1,713,816.00 | \$ 690,584.96 |
| Stores Overhead | \$ 37,535.00 | \$ 156,526.43 |
| Total Pipeline and Equipment | \$5,276,656.00 | \$4,351,794.76 |
| | | |
| <u>Construction and Labour</u> | | |
| Prime Contract | \$18,908,891.00 | \$23,953,991.00 |
| Ancillary Contracts | \$ 1,317,578.00 | \$ 2,023,487.42 |
| Company Labour | \$ 193,141.00 | \$ 674,783.23 |
| Land Rights / Regulatory | \$ 30,906.00 | \$ 152,070.62 |
| Total Construction and Labour | \$20,450,516.00 | \$26,804,332.27 |
| | | |
| Contingencies | \$ 1,169,764.00 | \$ 0.00 |
| Total Estimated Project Costs – Phase I | <u>\$26,896,936.00</u> | <u>\$31,156,127.03</u> |

Note: The Estimated Costs have changed from the original filing to correct a mathematical error.

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Red Lake Project Phase I Variance Explanations

Pipeline and Equipment

Pipe NPS 8, 6, 4, & 2

The price of the pipe was less than forecast; Pipe was also shipped directly to site which resulted in additional savings.

Valves, Fittings, Misc

The Misc. costs included sand and gravel which was readily available, and was obtained at reduced costs.

Stores Overhead

Construction took place over a two year period which required duplicate material handling, and warehousing. The original estimates were based on a one year construction period.

Construction and labour

Prime Contractor

- The original costs estimates were based on construction being completed in one year. The actual costs are based on construction extending over a two year time period resulting in multiple mobilizations.
- Equipment had to be stored and maintained on site over the winter
- Schedule had to be altered to complete one section of pipeline in the first year to avoid conflicts with MTO road construction program.
- It was expected that MTO would have completed a clearing project along highway 105, this clearing did not take place and Union incurred additional clearing costs completing this work.
- Additional costs were incurred completing directional rock drills on several environmentally sensitive watercourse crossings.
- Scope changes required by the customer and agencies (e.g. running line changes, capacity design changes) added costs to the project.

Ancillary Contracts

The estimated costs for ancillary contracts for surveying, x ray etc were based on a single year construction schedule. The actual costs were incurred over a two year time period

Company Labour

More work was completed by company personnel, than originally forecast. Project extended over a two year period resulting in additional costs

Land Rights/Regulatory

- It was not anticipated that there would be an oral hearing for the project.
- Additional easements and surveying were required for the project in order to accommodate the changes in the running line of the pipeline. These changes were requested by agencies to address future development and address environmental concerns.

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Red Lake Project – Phase II

TOTAL ESTIMATED and FINAL PROJECT COSTS

| <u>Plastic Mains</u> | <u>Estimated Costs -Phase II</u> | <u>Costs to Date</u> |
|----------------------------------|---|------------------------------|
| Contract Labour | \$3,200,418.00 | \$ 6,647,733.66 |
| Material | \$ 194,131.00 | \$ 256,941.48 |
| Outside Service & Company Labour | \$ 493,928.00 | \$ 395,468.37 |
| Contingency | <u>\$ 194,424.00</u> | <u>\$ 0.00</u> |
| Total Mains | \$4,082,091.00 | \$ 7,300,143.51 |
| <u>Steel Mains</u> | | |
| Contract Labour | \$ 856,541.00 | \$ 570,735.49 |
| Overall Project Coordination | \$ 1,437,000.00 | \$ 820,261.78 |
| Material | \$ 238,578.00 | \$ 172,289.95 |
| Company Expenses and Labour | \$ 49,733.00 | \$ 88,934.82 |
| Outside Services | \$ 270,591.00 | \$ 389,979.15 |
| Contingency | <u>\$ 142,622.00</u> | <u>\$ 0.00</u> |
| Total Steel Mains | \$ 2,995,065.00 | \$ 2,042,201.19 |
| <u>Services</u> | | |
| Contract Labour | \$ 3,853,940.00 | \$2,132,649.62 |
| Material | \$ 822,085.00 | \$ 83,442.92 |
| Company Expenses | \$ 53,045.00 | \$ 3,420.46 |
| Outside Services | \$ 0.00 | \$ 10,420.38 |
| Contingency | <u>\$ 236,454.00</u> | <u>\$ 0.00</u> |
| Total Services | <u>\$4,965,524.00</u> | <u>\$2,229,933.38</u> |

Note: Additional service costs will be incurred as new customers are added to the system

Stations

| | | |
|-----------------------------|-------------------------------|-------------------------------|
| Contract Labour | \$ 234,325.00 | \$ 517,442.47 |
| Material | \$ 234,325.00 | \$ 203,169.39 |
| Company Labour | \$ 0.00 | \$ 170,302.96 |
| Outside Services | \$ 0.00 | \$ 362,481.53 |
| Total Stations | <u>\$ 468,650.00</u> | <u>\$1,253,396.35</u> |
| Total Phase II Costs | <u>\$12,512,140.00</u> | <u>\$12,825,674.43</u> |

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Red Lake Project Phase II Variance Explanations

Plastic Mains

Contract Labour

Additional costs for rock excavation in towns, and scope changes in areas that were served

Material

Changes in scope added costs to the project. This included changing the areas to be served and the requirement for additional station facilities

Outside service and Company labour

The distribution project was completed in less time than forecast resulting in lower than expected inspection costs

Steel Mains

Contract Labour

Scope changes resulted in less steel pipe being installed

Overall project Coordination

Efficiencies were obtained by using the alliance partner

Material

Some steel mains were replaced with plastic facilities

Company Expenses and Labour

Additional costs were incurred due to late season pipeline commissioning

Outside services

Increased inspection costs

Services

Contract Labour

Due to late construction start fewer services were installed in first year

Material

See above

Company Expenses

Warehousing costs reduced as material was sent directly to site

Outside Services

Freight cost were increased due to material be sent directly to site

Stations

Contract labour

The scope and location of Customer Metering Stations and the District Pressure Control Stations were changed. Also some work originally planned to be completed by the pipeline contractor was transferred to Union Gas company construction crews

Material

See above

Company Labour

See above

Outside Services

See above

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