

ONTARIO ENERGY BOARD

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| FILE NO.: | EB‑2013-0365 |  |
| VOLUME:  DATE:  BEFORE: | 1  June 5, 2014  Paula Conboy  Christine Long  Ellen Fry | Presiding Member  Member  Member |

EB-2013-0365

THE ONTARIO ENERGY BOARD

**IN THE MATTER OF** the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Sched. B;

**AND IN THE MATTER OF** an Application by Union Gas

Limited, pursuant to section 36(1) of the Ontario Energy Board Act, 1998, for an order or orders approving or fixing just and reasonable rates and other charges for the sale, distribution, transmission and storage of gas as of January 1, 2014.

Hearing held at 2300 Yonge Street,

25th Floor, Toronto, Ontario,

on Thursday, June 5th, 2014,

commencing at 9:33 a.m.

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VOLUME 1

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BEFORE:

PAULA CONBOY Presiding Member

CHRISTINE LONG Member

ELLEN FRY Member

MICHAEL MILLAR Board Counsel

KHALIL VIRANEY Board Staff

CRAWFORD SMITH Union Gas

CHRIS RIPLEY

CARLY SHAW

PETER THOMPSON Canadian Manufacturers & Exporters (CME)

JAYA CHATTERJEE City of Kitchener

DWAYNE QUINN Federation of Rental-housing Providers of Ontario (FRPO)

IAN MONDROW Industrial Gas Users' Association (IGUA)

RANDY AIKEN London Property Management Association (LPMA)

MICHAEL BUONAGURO Ontario Greenhouse Vegetable Growers (OGVG)

JAY SHEPHERD School Energy Coalition (SEC)

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Thursday, June 5, 2014

### --- On commencing at 9:33 a.m.

MS. CONBOY: Good morning, everyone. Please be seated.

This is the hearing of Union Gas's 2014 IRM application, Board File No. EB-2013-0365. All of the main rate issues associated with this case were settled by the parties through an agreement that was approved by the Board on May the 12th.

The Board is here today to hear a settlement proposal for an additional issue that was recently filed, the Parkway delivery obligation, and to hear cross-examination and perhaps submissions depending on the time that we have on two other unsettled issues. We'll call them the Kirkwall metering cost and the Leamington OGVG issue.

My name is Paula Conboy, and I will be presiding over today's proceedings. With me today is Christine Long and Ellen Fry. May I have appearances, please.

# Appearances:

MR. SMITH: Good morning, members of the Board. My name is Crawford Smith. I appear as counsel for Union Gas, and with me to my left are Chris Ripley from Union Gas and Carly Shaw from Union Gas.

MS. CONBOY: Good morning.

MR. THOMPSON: Yes, Peter Thompson for Canadian Manufacturers & Exporters, and to my left is Jaya Chatterjee. She's here from the City of Kitchener.

MS. CONBOY: Good morning.

MR. MONDROW: Good morning, Madam Chair, Panel members. Ian Mondrow, counsel for the Industrial Gas Users' Association. Acronym is IGUA.

MS. CONBOY: Good morning, Mr. Mondrow.

MR. BUONAGURO: Good morning, Michael Buonaguro. I'm counsel for OGVG.

MS. CONBOY: Good morning, Mr. Buonaguro.

MR. QUINN: Good morning. Dwayne Quinn on behalf of FRPO, and also here to assist Mr. Buonaguro with OGVG.

MS. CONBOY: Thank you very much. Good morning.

And I understand we have somebody on the phone, Mr. Aiken?

MR. AIKEN: Yes, Randy Aiken, on behalf of the London Property Management Association.

MS. CONBOY: Thank you for joining us.

MR. MILLAR: And good morning, Madam Chair, members of the Panel. Michael Millar, counsel for Board Staff, and I will be joined by Mr. Khalil Viraney.

MS. CONBOY: Thank you very much.

Are there any preliminary matters before we get started?

MR. SMITH: I don't believe so.

MS. CONBOY: Okay. Thank you. So as I think Mr. Viraney will have sent out an e-mail yesterday, we will attempt to get through everything today, including argument-in-chief, realizing that, Mr. Smith, you would like to have about a half an hour to prepare for that. But that will depend on how we go. And we do have time set for -- or time allocations set out for cross-examination, and I will attempt to keep a tight rein on the estimates that were given to me.

Now, I see that I have Schools Energy Coalition down for cross-examination. Mr. Thompson, can you advise me by any chance do you know if Mr. Shepherd or Mr. Rubenstein is here or will be here today?

MR. THOMPSON: I'm afraid I don't. I'm not Mr. Shepherd's shepherd.

[Laughter]

MR. MILLAR: Madam Chair, if it assists I'll try to contact Mr. Shepherd.

MS. CONBOY: Thank you.

MR. QUINN: And Madam Chair, Mr. Shepherd sent an e-mail late yesterday saying that he was -- his interest is in the second -- the second issues that will be under --

MS. CONBOY: Okay.

MR. QUINN: -- oral examination, so he may just be delaying his arrival.

MS. CONBOY: Thank you very much. Thank you, Mr. Thompson.

Mr. Smith, how would you like to proceed with presenting the settlement agreement? Will you be the one walking us through that?

MR. SMITH: I expect I will be. We may also receive submissions from Mr. Mondrow and perhaps Mr. Thompson, although I'm not certain of that. But I think the pleasure of presenting the settlement in relation to issue 10.7 is mine.

MS. CONBOY: Okay. Thank you. I did not count on other people making submissions, given the fact that this was a settlement agreement. I only made provisions for questions from the Panel, but if you go through we'll cross that bridge when we come to it.

# UNION GAS

# Presentation of the Settlement Agreement by Mr. Smith:

MR. SMITH: Thank you very much, Madam Chair.

So as I indicated, it is my pleasure to present the settlement in relation to 10.7, which is the Parkway delivery obligation. And perhaps before doing so let me just express Union's appreciation and I'm sure the appreciation of the other parties to the settlement for the Board's consideration in extending the deadline on several occasions to permit the parties to continue to discuss the matter and work out what we hope is acceptable to the Board.

So perhaps with that we can turn to the settlement agreement, and what I would propose to do is just start with a broader settlement agreement to frame the discussion, and -- sorry, the settlement at 10.7, before we go to appendix B.

So issue 10.7 in the settlement agreement was labelled "Report on the outcome of the Parkway obligation working group". And by way of background, in the 2011-0210 proceeding, which was Union's rebasing proceeding, Union agreed to strike a working group with intervenors interested in the Parkway delivery obligation, which, as it turned out to be almost everyone, if not everyone.

In that proceeding and its decision the Board directed Union to report in this proceeding on the outcome of the working group or on any proposals, if any, coming out of that working group.

Now, as matters ultimately unfolded there was no consensus at the working-group level on any proposal to shift what is an obligation to deliver volumes at Parkway to move those volumes to Dawn, and accordingly the result of it was that Union filed the evidence that you have before you, which can be found in Union's prefiled evidence at Exhibit A, tab 4, and that evidence sets out Union's proposal to transition the Parkway obligation to Dawn over time using Dawn to Parkway capacity that was temporarily available and also use Dawn-Kirkwall forecast anticipated turnback as well.

The evidence -- and I don't propose to go through it with you, but the evidence describes in some 46 pages the background to the Parkway obligation, so the history of the Parkway obligation, and there are historic reasons to it that go back to the early 2000s that relate to increasing direct-purchase volumes and facilitating the transition to direct purchase and what became the vertical slice in allocations of upstream transportation capacity to DP customers who at that time elected to maintain their delivery obligation, which was at that time Parkway. And there were good reasons for that, because TransCanada capacity was less expensive than Vector capacity, at least at that time.

It goes through Union's Parkway delivery obligation policies, the work of the working group, Union's proposal, Union's delivery obligation policies and the resulting cost allocation and rate-design impacts.

In this proceeding through the settlement process the parties picked up where they had left off in the working group, and likely facilitated by the fact that Union had filed prefiled evidence and IGUA had filed certain prefiled evidence as well.

Ultimately, as the Board is now aware, the discussions were fruitful, and we have at appendix B to the settlement agreement a comprehensive settlement of the Parkway delivery obligation.

And subject to direction from the Board as to what you might find to be useful, I thought what I would do is go through the agreement at a high level or level of detail that you'd find useful, and take questions as we go along or at the conclusion, however you would like to do it.

MS. CONBOY: I think that's a good idea. Why don't we go through that way, and if we need more detail at some point we'll stop you and ask some questions.

MR. SMITH: So it's useful, I think, in looking at the appendix to pay careful attention to the context and guiding principles, because really they set out a conceptual framework. And what you find in sections B and C thereafter is really the parties' attempt to put the meat on the bones thereafter.

So what you see in the context is that the guiding principle -- and as reflected in the very first paragraph -- there is an inequity in the manner in which the delivery of gas volumes required by Union is achieved. And nobody means "inequity" in a pejorative way. The simple fact of the matter is that Union's Dawn-Parkway system is smaller in size and capacity than it otherwise would have to be as a result of gas landing at Parkway. And that is a benefit that is received by all customers.

So if you think of the size of the pipe, if the only place getting gas was Dawn, it would have to be bigger to move all the gas to Parkway and out from Parkway. But because gas is received at Parkway, it doesn't need to be as big, and there's a benefit to that, obviously. There's effectively a cost of avoided facilities. That's a benefit that everybody receives.

The inequity arises because the benefit is delivered –- if I can put it that way -- disproportionally by large-volume direct-purchase customers, who bear the lion's share of the obligation to deliver gas to Parkway. So while they receive a benefit in that the Dawn-Parkway system is smaller, that benefit is smaller, outstripped by the cost to them of delivering gas at Parkway, because there is a cost of getting gas to Parkway and that cost is either met behind the scenes through arrangements that the direct-purchase customers make themselves, or they contract for M12 volumes to move gas on Union's system from Dawn to Parkway at discharge pressure.

So that's the context, and that's the important context for why the parties were looking to resolve this inequity.

Going further, what you have conceptually in the settlement is a proposal that in the main -- and I think the words used in the settlement agreement -- primarily tracks the proposal that Union made in its prefiled evidence. So as reflected in paragraph 2, what you have is the parties agreeing that the PDO should be permanently reduced primarily in the manner Union has proposed and reflected in its evidence, but with certain modifications and an end state as outlined below. And I'll go through those.

But conceptually what's happening is to the extent it makes sense financially, the concept is for Union to reduce the Parkway obligation through the turnback that becomes available over time. And so it will facilitate the movement of volumes from Parkway to Dawn by using turnback on its Dawn-Parkway system or turnback on its Dawn-Kirkwall system.

And as the settlement unfolds, that may ultimately not achieve a complete reduction of the Parkway obligation, but the hope is that it goes a long way towards that.

And so you have at paragraph 8 what the parties have set out is an desire for an equitable end state which Union's ratepayers seek is one which either eliminates in its entirety the Parkway delivery obligation or where it is more cost-effective to do so, calls for ratepayers to compensate DP customers upon whom a Parkway delivery obligation is imposed, and to deliver Parkway delivery obligations volumes at Parkway and sales service customers on whose behalf Union delivers volumes on Parkway for the benefit conferred on Union's integrated system.

So that's a long way of saying that it may still be the case at the end of the day that Union requires, for design purposes, volumes to land at Parkway. That, of course, will come at a cost, and the desire is that those customers who are incurring the cost should receive a credit for doing so. And it may be that some of those volumes that underpin that Parkway delivery are in-franchise sales service customers as well, because Union delivers some sales service volumes at Parkway in order to meet the Parkway obligation. Although, as I said before, the lion's share is DP.

Now, I don't propose to go through it at this stage. I'll touch on it when I get to section C, but there is a discussion in the context and guiding principles of the Halton Hills facility and TransCanada Energy, which may not have leapt off the page as intuitively obvious to people. It certainly didn't to me. So that's specifically dealt with in section C and when I get there I'll just touch on it.

So what you have in section B is the guts of the PDO reduction proposal excluding TC, although the framework for TC references back to that section. So really what you have is a three-phased approach.

And beginning immediately, what the parties have agreed is that the Parkway obligation will be permanently reduced by 146 terajoules per day using capacity now temporarily available, M12 capacity that's temporarily available on Union's Dawn-to-Parkway system. That will result in a 36.1 percent reduction of the M12 capacity held by direct-purchase customers, excluding TCE. So those who elect to change their delivery point from Parkway to Dawn will be entitled to do so to a certain extent, and that's all laid out in paragraphs 1A through G.

So effectively, customers with a smaller obligation of 100 gJs or less will have their entire Parkway delivery obligation -- should they so choose, I suppose -- to have their Parkway delivery obligation transferred to Dawn.

Those who have PDOs greater than 100 gJs will have a portion -- should they so choose -- of their obligation shifted to Dawn, and that portion is the 36.1 percent, which is basically their pro rata share of the 146.

The annual demand cost –- and this is in paragraph D –- the annual demand costs of the unutilized capacity between Dawn and Parkway and the additional 8 tJs -- which I didn't mention, but it's referred to in paragraph C -- will be determined, so the demand charge will be determined by applying the 2014 proposed M12 rate for Dawn-to-Parkway transportation at 100 percent load factor, which results in a cost of about $4.76 million; 4.2 of that relates to the 146 tJs and 0.523 relates to the 18 tJs.

That money will be recovered by Union in a deferral account, and subject to being corrected by my client, conceptually, anyway, the way I think of this is Union's rates have an amount of revenue that underpins -- that is based upon the M12 capacity held by customers. So to the extent they're turning back that M12 volume, there's a decrease in the revenue that Union is receiving, which would result in Union being out, effectively, which wouldn't be an appropriate outcome.

So what's happening is that that revenue is being captured in the deferral account. So effectively, the volumes can be turned back, and it's neutral --

MS. CONBOY: And could you remind me -- sorry, Mr. Crawford. Can you remind me, is that deferral account -- has that been approved as the overall settlement agreement, or will that have to be a new one as part of this settlement agreement?

MR. SMITH: It will have to be approved. It's attachment 1 --

MS. CONBOY: Okay.

MR. SMITH: -- is the accounting order that would support it, or the accounting entries, maybe put differently --

MS. CONBOY: Okay.

MR. SMITH: -- a bit better. And that's the deferral account.

MS. CONBOY: I see that. Sorry.

MR. SMITH: So that's what would propose to happen effective April 1. And when we started this I'm sure April 1 seemed like a sensible date. We're obviously past April 1. I should advise the Board that Union has facilitated this thus far on a temporary basis, understanding that the Board may not adopt a settlement agreement, in which case it would have to be all unwound, which could be done, but Union has thus far, as peoples have elected to notionally permitted them to turn back their M12 capacity and move their obligation to Dawn.

MS. FRY: Excuse me, what do you mean by "facilitated"?

MR. SMITH: I'm sorry?

MS. FRY: You said "Union has facilitated".

MR. SMITH: Union has accepted the deliveries at Dawn rather than requiring deliveries to be made at Parkway. It's implemented.

MS. FRY: Thank you.

MR. SMITH: That brings me to, subject to any questions, phase 2, which is the period between April 1, 2014 and October 31, 2018, although subject to phase 3, which really kicks in in 2016. The idea behind phase 2 is that there will continue to be volumes that need to be moved to Dawn from Parkway.

The problem is that Union doesn't find itself in the same position with respect to turnback during that period as it found itself for 2014. And so what you have in paragraph 2 is Union's forecast of the portion of Dawn to Parkway capacity needed to support the Parkway delivery obligation which will be unavailable, and then it's laid out in those paragraphs, but essentially what's happening -- and you see in the 2015 to 2016 period -- is that there are commitments for transportation on the Dawn-Parkway system which were contracted as part of Union's open seasons which underpinned the Parkway applications that the Board heard last year. So there isn't the same volume available for -- that's temporarily available to support the shift or the reduction of Parkway delivery obligation.

So Union is going to manage or attempt to manage the Parkway delivery requirement as it has proposed in its prefiled, and that's essentially set out in I through IV. So you have the 146 that's going to be used from April 1, 2014 to 2015.

Beginning April 1, 2015 the Parkway system is going to be in a shortfall, so the demand cost associated with the temporarily unavailable capacity described above, so the $4.7 million, will remain in rates. And that money is to be used by Union to procure other services, and that may be landing gas at Parkway if need be. I'm not sure the full range of services that could be procured by Union at that time.

But essentially the idea is Union will have $4.7 million to manage that Parkway obligation. It doesn't have the capacity on the Dawn-Parkway system. Its obligation to go out and find other ways to do it.

Now, the paragraph goes on to say that Union is to manage the Parkway delivery shortfall through the acquisition of incremental resources, the costs of which are not already covered by base rates, Y factors, and/or deferral and variance accounts and are subject to reporting obligation.

That's a wordy way of saying Union shouldn't get paid twice for doing this. So if Union is already receiving revenue in relation to a service and it goes out and dresses the Parkway obligation up, for lack of a better word, as being covered by that service, it's not entitled to the $4.7 million or some reduction, and the agreement goes on to provide that that money would be ratcheted down accordingly.

MS. LONG: Mr. Smith, can I take you back to the distinction between phase 1 and phase 2, phase 1 starting April 1st, 2014, and then I look at phase 2 here, April 1st to October 31st, 2015, no Parkway delivery shortfall.

Can you explain the distinction to me there, why that's considered to be phase 2, but it looks to me like there is no change, so maybe I'm having difficulty understanding why that is phase 2, as opposed to a continuation of phase 1, if there is no delivery shortfall.

MR. SMITH: It isn't. I suppose we could have described it -- it wasn't, but it could have been described as beginning October 31, 2015, subject to any comments people would like to make, because the first bullet point, April 1, 2014 to October 31, 2015, that 146 of temporarily available M12 Dawn to Parkway capacity is the very same 146 that's referred to in phase 1, if that answers your question.

MS. LONG: Okay. Thank you.

MR. SMITH: So what you have then, going through phase 2 -- and it's perhaps worth noting at paragraph 4, from and after November 1, 2016, all PDO volumes, DP and sales service gas will attract a Parkway delivery credit. The PDCI will be set at the Board-approved M12 Dawn to Parkway toll at 100 percent load factor, including fuel costs -- fuel based on the fuel cost included in Union's October 1 QRAM each year.

And then it goes on in paragraph 5 to explain that the PDCI will be paid on the Parkway deliveries Union requires from DP customers, for which they commit to deliver their daily contract quantities at Parkway and requires from its sales-service customers volumes voluntarily delivered to Parkway.

So if someone chooses for whatever reason that they want to deliver to Parkway rather than Dawn, they're not entitled to the PDCI. But if Union requires those deliveries continue at Parkway, then those customers will be entitled to the commitment, which basically reflects the benefit that they're conferring on the system.

Now, paragraph 6 I should mention as well. The payment of the PDCI will be made by way of a credit to the Union south gas supply transportation rate. The payment of the PDCI to direct purchaser -- direct-purchase customers will be made by way of credit on the bill to the bundled transportation contract holder. So that's in effect to the gas marketer. Union doesn't have the billing system necessary to stream the benefit directly to individual customers.

The paragraph then goes on to describe how the PDCI will be allocated to rate classes and recovered in rates, and that it will be the same manner as the PDO reduction costs were allocated to rate classes and recovered in rates, and then there is an illustration in schedule 1 which sets that out.

You then have phase 3, which I identified earlier has the funny timing. It really kicks in once the PDCI begins to be paid. And it's November 1, 2016 or such earlier date upon which Union transitions to Dawn delivery volumes currently being delivered to Parkway by Union on behalf of sales service customers, and any remaining PDO for all DP customers and sales service customers will be eliminated in a manner which is most cost-effective for all of Union's ratepayers.

So if it's more effective, the guts of it is this. If it's more effective to do something other than pay the delivery commitment in order to facilitate the move back to Dawn, then Union will do that. And if not, then Union would continue to pay the delivery commitment. So for example, if it were less expensive -- thinking of the revenue requirement -- to have a facilities solution, then Union could propose a facilities solution. But if it weren't less expensive and if it were less expensive to continue to pay the Parkway delivery commitment, then that would continue.

An important part of the settlement agreement, I'm sure from my friends' perspective, is set out in Roman numeral IV, relating to annual reporting and there are a lot of moving parts, obviously, going on here. And so what Union has undertaken -- and I hope this is helpful, but what Union has undertaken to do is to include in its annual rate case certain reporting, and that reporting is detailed in paragraphs 10A through D. And in particular, it will report on the capacity that could become available over the next two years commencing in the test year, and that could be used to further reduce the Parkway delivery obligation.

And one of the reasons for that -- the real reason for that -- is to explore options or advocate for further physical displacement of remaining PDOs. And it also provides time for parties who may have made arrangements with other service providers to meet their Parkway delivery obligation; it gives them sufficient time to turn back that capacity. So if they have a service that has a renewal period, a two-year renewal period, this gives them ample time to give notice that they don't need the service to land the gas at Parkway.

Union will also report -- in paragraph 10C -- on the measures that it has used and the cost it has incurred to manage the Parkway delivery shortfall described above in paragraph 2B, B2, and that's what I talked about before, the services that Union goes out and procures. So Union has agreed to report on what it's actually done and the cost that it has actually incurred in order to manage that Parkway obligation.

And what you find in paragraph C is the parties' agreement that if the costs incurred to manage the Parkway delivery shortfall component of the PDO are less than the demand cost of the $4.7 million, then the amount of the cost savings would accrue to Union. If the costs are greater than the $4.7 million, then Union's on the hook for it. And the parties further agree that ratepayers will be entitled to recover from Union that portion of the costs incurred by it to manage the Parkway obligation to the extent that they've already paid for it through rates, Y factors or deferral and variance accounts.

So that's the proposal as it relates to everybody except TCE. And I suppose what I would say about TCE --

MS. CONBOY: Sorry, before you get to walking us through TCE, I can see why this took some time to reach an agreement. It's a very complicated -- anyway, I can see why it took a while.

What do you envision with respect to -- what are the annual rate cases going to look like in terms of evidence and discovery in this?

MR. SMITH: It's hard to say at this stage how much incremental paperwork will be involved in the annual reporting. Union files a number of schedules already as part of its annual rate case.

I would expect, in fairness, that people will be -- and the settlement agreement contemplates this, that people will be entitled to ask questions through interrogatories in relation to how Union has managed the Parkway delivery obligation, the cost it has incurred, to know -- and whether or not, as I say, they would be entitled to some rebate of the $4.7 million, for lack of a better word.

So there will be incremental process relating to it, there's no doubt. That is, I suppose, at least from Union's perspective, at least somewhat unfortunate, given that we're on IRM framework. But ultimately, the consensus view was that this was a fair way to manage what is a fairly complex story over a number of years.

So my hope is that the incremental reporting won't be significant, but I certainly -- I don't think anybody at Union has prepared draft schedules that we could show to you that discuss it.

MS. CONBOY: Fair enough. One tries -- one hopes that these annual rate adjustments are as mechanistic as possible. This appears, at least for the first year or two, will take some time in a rate proceeding. So I wasn't sure if people had turned their minds to that in the settlements.

MR. SMITH: Well, I think it's fair to observe that certainly in the first year, that there will be -- and perhaps the second -- there will be a bit of a learning curve in trying to understand.

Now, Union –- always dangerous to do this, but Union already, as the Board will be aware, has certain commitments to hold a stakeholdering conference every year about changes, for example, changes to its gas supply plan and how it's done. I don't know –- and this is the sort of thing that would probably go in a stakeholdering presentation, so that people get a sense of it and can provide some feedback on whether it's -- the format of it is useful.

So my hope is that that will happen and it will go a little bit smoother than it --

MS. CONBOY: So that will happen prior to the application being filed?

MR. SMITH: Yes.

MS. CONBOY: Thank you, Mr. Smith.

MR. SMITH: So that brings me to TCE. I suppose what I would say about TCE is, in the main, it's not different in that they will be entitled to turn back a portion of the M12 capacity that they hold.

The reason why TCE is separately identified is their situation is somewhat unique, for a couple of reasons.

One is their location. They're located quite close to Parkway.

But the main reason -- and as explained both in the context section and then later in section C -- is that for historical reasons the terms of its contract are different, that it arose out of the NGEIR proceeding, which dealt with terms of service for power -- in part for power plants, and they hold an M12 contract for 132,000, or it holds an M12 contract for 132,000 gJs per day pursuant to an arrangement they made with Union which was captured by the Board-approved settlement arising out of the NGEIR proceeding.

Under the provisions of that M12 contract, TCE purchases and delivers its gas supply to Union at Dawn on a non-obligated basis. So it only delivers gas to Dawn that it intends to burn, which may be less than 132,000.

Union has an assignment of that contract, and it uses or holds that capacity on its Dawn-Parkway system as M12 capacity for the Parkway obligation.

So effectively, Union is holding it firm to meet the Parkway obligation. But TCE's contractual obligation is only to Dawn on a non-obligated basis. TCE then has a billing contract demand on a T2 contract, which is only for 52,000 gJs a day, which is the minimum volume necessary to achieve a PI of 1 on the lateral that connects its facility to Union's system. And then to the extent TCE burns more than its billing contract demand, it pays the T2 authorized overrun charge.

So it has an unusual contractual arrangement, and that has resulted in a change or a somewhat different treatment as detailed in section C for TCE. So beginning immediately, as reflected at page 6, beginning immediately following Board approval of the PDO reduction settlement, should it occur, Halton Hills, which is TCE, will be entitled to elect to turn back up to 36.1 percent, which is the same 36.1 percent everyone else over 100 gJs per day is receiving of M12 capacity effective April 1, provided they agree to an increase in their billing contract demand as well, because otherwise TCE would receive a disproportionate benefit, effectively, is the nub of it.

So it goes on to say that they will accept a one-time increase in their rate T2 billing contract demand, to the extent necessary, to make the increase in rate T2 demand payments, taking into account the demand rate adjustments resulting from B1E equal to the reduction in M12 demand payments associated with the turnback volumes, and they will continue then to be non-obligated at Dawn for their full contract demand. And there is an example that I hope is useful that's set out for the Board there.

The benefit in the -- of the increase in the rate T2 demand will accrue entirely to the benefit of ratepayers exposed to the PDO reduction costs. So the benefit does not accrue to Union, but rather accrues to ratepayers. After that point, Halton Hills will have the right to turn back additional M12 capacity as other customers who are over 100 gJs per day receive or have that right made available to them, provided they continue to increase their billing contract demand under their T2 contract.

So the idea is as they turn back their BCD should go up, and it should go up to but not exceed the 132,000 gJs per day.

Now, paragraph 6, after November 1, 2018 Halton Hills will have the option to turn back all or any portion of its remaining M12 capacity, so if there is any of the 132,000 that's still left they can turn it back and convert an equal amount of the PDO to non-obligated deliveries subject to ratcheting up their BCD that I talked about. Or they can convert to a standard T2 contract at that time with non-obligated deliveries at Dawn for 100 percent of the rate T2 contract demand, so whatever their contract demand is.

And under that option they'll turn back or allow the term to expire any remaining M12 capacity and pay rate T2 demand charges on 100 percent of the rate T2 contract demand rather than the lesser portion that they pay now.

You'll see in paragraph 8 that once -- their billing contract demand equals their contract demand, so once they're at the 132,000 they will have the option to shorten the T2 contract term to end one year from the date of full contract demand conversion. So whenever that happens above.

So if that's in 2017, they -- or 2018 they could have their contract end in 2019, provided, however, they will continue to contract for 52,000 all the way through to July 31, 2029. And they're not entitled to a Parkway delivery commitment.

Subject to any questions, that is the settlement. I don't know whether or not you wanted to receive submissions from Mr. Mondrow or he wanted to ask leave of the Board to make submissions or not.

I should say by way of observation, if it's of some assistance, IGUA did file evidence on this issue, and it's no mystery to say that they were an integral part of working out the settlement. So it may be appropriate. As was Mr. Thompson's client.

MS. FRY: Just one question, just to be clear. So you're talking about establishing a deferral account. I just want to be clear on how the special TCE arrangement would fit into that.

MR. SMITH: Let me go to the accounting order. As I understand it, conceptually what will happen is the deferral account is intended to capture timing differences. So to the extent there is a turnback by TCE or anybody else of their M12 capacity mid-year, the idea would be for Union to capture the revenue associated with that in the deferral -- the loss revenue in the deferral account, which would then be recovered at Union's annual deferral account proceeding.

So TCE is not treated differently -- maybe the short answer to your question is they're not treated differently.

MS. FRY: Okay. Thank you.

MS. CONBOY: Thank you. Now, we wouldn't normally make provision for submissions from other parties on a total settlement. Is there any reason we should depart from that today?

MR. SMITH: I don't think there is any -- I should say I don't think there is any principled reason to do so. It would only be if you had questions that I haven't answered.

MS. CONBOY: Thank you.

# Submissions by Mr. Mondrow:

MR. MONDROW: Can I make submissions on that question, Madam Chair, as a preliminary point? Briefly, not to prolong this -- I'm conscious of the Board's time constraints -- I do want to refer -- this is very important to IGUA. This has been two years in the making; IGUA raised it.

IGUA filed evidence, as Mr. Smith has indicated, and to complete the record, because it's not referenced -- we could have, but we didn't in the settlement agreement. I think it was just an oversight. I would like to refer the Board to that evidence, which supports the agreement and the principles Mr. Smith has outlined for you.

MS. CONBOY: Thank you.

MR. MONDROW: If I could do that briefly, we don't have an exhibit number, as I understand it, yet for this evidence, but this is evidence of the Industrial Gas Users Association. It's titled "Parkway delivery obligation," and it was filed under cover of my firm's letter dated February 10th, 2014. I wonder if we could get an exhibit number for that, for the record.

MR. MILLAR: Yes. And, Madam Chair, we have copies if it assists the Panel. It's up on the screen, but we'll bring them up. So we'll call this K1.1.

EXHIBIT NO. K1.1: IGUA DOCUMENT ENTITLED "PARKWAY DELIVERY OBLIGATION."

MR. MONDROW: Madam Chair, in K1.1 in paragraph 2 of the evidence itself -- I'll wait for a minute until the Panel has copies.

You can see the purpose of this evidence, filed by IGUA but recounting facts associated with two of its members, LANXESS Inc. and Suncor Energy Inc., was to provide an indication of the impact of the Parkway delivery obligation on large contract rate delivery customers.

And if the Panel could simply go to the summary on page 4 of that evidence, in paragraphs 15 and 16 you can see that the evidence provides, by way of example, the dollar impacts on an annual basis on each of these two representative direct-purchase customers with Parkway delivery obligations. In the case of LANXESS, the annual dollar impact of the current delivery obligation is just over half a million dollars, and in the case of Suncor it's about $630,000.

And so I wanted to draw that to the Board's attention on the transcript and the record for today and get an exhibit number, because in our submission this evidence supports the preambles and the context that Mr. Smith took you to in the agreement itself regarding the current non-pejorative inequity, which their proposal seeks to rectify.

I would just make one more point about that, and that is in reference to Mr. Smith's comment on paragraph B6 of the settlement itself, which you can find at page 4 of appendix B. And Mr. Smith referred to that in noting that the -- how the PDCI would be credited or paid to system customers on the one hand and DP customers on the other.

And I think it's accurate to say -- and just to make sure it's abundantly clear -- Mr. Smith referred to a payment to marketers. The payment is actually going to go to Union's customer. In the case of all of the smaller volume direct-purchase customers, that would be the marketer. In the case of the larger volume direct-purchase customers, that would be the customer or their supplier, depending on who holds the contract with Union. In respect of those larger customers, those supply arrangements are negotiated with various suppliers and renegotiated periodically.

So there are different implications in respect of payment of that credit, and you can see that numerically if you look at page 5 of 6 of the settlement schedule 1.

MS. CONBOY: Sorry, before you go any further, that's --

MR. SMITH: No, I agree entirely with that. Yes.

MS. CONBOY: Thank you. Please go on.

MR. MONDROW: Just to illustrate the dollars involved in that clarification, if you look at page 5 of 6 of schedule 1, you can see the column that's entitled "Gas cost savings for DP." And if you refer to the title of that particular page of the schedule, it's my understanding that this actually reflects the value of the delivery commitment incentive payment to the various rate classes on an annualized basis.

And the top two rows, Rates M1 and M2 that reflect the smallest volume direct-purchase customers, who would be entirely served by marketers. And then as you go through the chart, you pick up the larger volume customers who would fall into this category of more directly, either by renewed negotiations with their suppliers or because they hold Union's contract directly, receive payment of the delivery commitment.

And just to loop back to IGUA's evidence, LANXESS and Suncor, for example, would, either through negotiated delivered supply or assuming their own obligations, to the extent that they continued to be obligated at Parkway would benefit from the delivery commitment incentive directly.

MS. CONBOY: Thank you.

MR. SMITH: I agree entirely with that.

MS. CONBOY: Thank you.

MR. MONDROW: And I think Mr. Smith has addressed everything else that I would have addressed, save to say that the continuing reporting which you referenced, to my mind and I think the mind of all the supporting parties, serves to provide an annual reassessment of the continuing cost-effectiveness of the relief proposal implementation by Union, to give the parties and the Board some assurance that the mechanism continues to work in the most cost-effective basis. And I think that's important, particularly during the term of the IRM.

MS. CONBOY: Understood. Thank you.

MR. MONDROW: Thank you very much for your indulgence.

MS. CONBOY: Mr. Thompson, I see you reaching for your mic.

MR. THOMPSON: Yes. I just wanted to say two things.

# Submissions by Mr. Thompson:

One, Mr. Mondrow has touched on the two points that I would have touched on.

Just with respect to the marketers issue, which Mr. Smith mentioned and Mr. Mondrow has commented on, to be clear, we should have on the record that there are three contract customers in M4 that are served by marketers, but the rest are not. And I think Mr. Mondrow has made that point. The marketers, as he pointed out, are primarily serving the smaller rate customers in aggregated arrangements.

The only other point is with respect to the question you asked about annual rate filings: Is this going to complicate things? And my answer to that would be if everything is as transparent as we've tried to make it, there will certainly be more incremental material that Union will file. But I view that as avoiding interrogatory questions rather than prompting greater discovery. So the objective was to keep this simple, but to keep it transparent as it rolls along.

MS. CONBOY: Thank you.

MR. THOMPSON: Those are my comments.

MS. CONBOY: Thank you very much. Now that I've opened the floodgates, but also recognizing this has been a result of quite a bit of work, and complicated work, I will ask other parties, if they do have very short clarifications that they want to put on the record, now's the time. Very short clarifications they want to put on the record, feel free to do.

Mr. Quinn?

# Submissions by Mr. Quinn:

MR. QUINN: Very short, Chair Conboy. We do support the agreement. There was a lot of work, as you've noted.

To clarify on behalf of clients that I serve and Mr. Shepherd, who is not here, some M1 and M2 customers actually are in buying groups that may not be served by marketers, so they may not be exposed to the same type of concern. They would have different arrangements.

But in a generality, marketers would serve M1, M2; M4 and beyond would have more individual gas supply contracts. That's the only clarification I would add. Thank you.

MS. CONBOY: Thank you very much.

And, Mr. Smith, everything's kosher with you?

MR. SMITH: Everything is great.

MS. CONBOY: Great. Well, thank you for that endorsement.

We will take a break now. As I said, we're going to try to keep everything tight, so I'll give everybody an opportunity to run down and grab a cup of coffee if they need it. Let's try and be back at quarter to, please. Let's aim at quarter to. Thank you.

### --- Recess taken at 10:33 a.m.

### --- On resuming at 10:46 a.m.

MS. CONBOY: Before we get started to hear the Kirkwall metering issue, I notice that somebody who is on the schedule for cross-examination has arrived. Would you like to make an appearance?

MR. SHEPHERD: Thank you, Madam Chair. Jay Shepherd, School Energy Coalition. I'm sorry I wasn't here this morning. I just couldn't be here for all that excitement, and I would have had to show it.

MS. CONBOY: That's all right. Mr. Thompson filled us in on where you were.

Mr. Smith, are your witnesses prepared to be affirmed?

MR. SMITH: Yes, they are, and I would ask that they come forward. We have with us Greg Tetreault and Dan Wallace.

MS. CONBOY: Thank you.

# UNION GAS - PANEL 1

**Greg Tetreault, Affirmed.**

**Daniel Charles Wallace, Affirmed.**

MS. CONBOY: Thank you.

Mr. Smith, I don't think there is any need to go through their entire CVs. I'm not sure if you were going to do that, but perhaps just highlight to us what your witnesses' role is with respect to the evidence and at Union, please.

MR. SMITH: Thank you, members of the Panel. The CVs, just by way of information, were provided by Union under cover of a letter dated June 3rd, 2014. And I don't believe we have copies, but perhaps we could nevertheless give it an exhibit number, and then we'll undertake to provide that.

MS. CONBOY: That's fine. If they were filed electronically I don't think we need hard copies of them for today's purposes.

MR. MILLAR: Exhibit K1.2, and those will be the CVs of Messrs. Wallace and Tetreault.

MS. CONBOY: Thank you very much.

EXHIBIT NO. K1.2: CVS OF MESSRS. WALLACE AND TETRAULT.

# Examination-In-Chief by Mr. Smith:

MR. SMITH: Just very, very briefly, Mr. Tetreault, you are the manager of rates and pricing at Union Gas?

MR. TETREAULT: That's correct.

MR. SMITH: And that's a position you've held since 2008?

MR. TETRAULT: That's correct.

MR. SMITH: And you are here to speak to issues relating to cost allocation and rate design?

MR. TETREAULT: Yes, I am.

MR. SMITH: And Mr. Wallace, you are the manager of system planning and project development?

MR. WALLACE: That's correct.

MR. SMITH: That's a position you've held since 2012?

MR. WALLACE: 2014, actually. This past Union rate.

MR. SMITH: You've held positions with Union of increasing responsibility since about 2000; is that right?

MR. WALLACE: Yes.

MR. SMITH: Okay. And I gather you have an MBA and a Bachelor of Applied Science Engineering from the University of Waterloo?

MR. WALLACE: That's correct.

MR. SMITH: And my understanding is that you are in a position to provide evidence with respect to specific engineering of the -- of Union's system?

MR. WALLACE: That's correct.

MR. SMITH: Okay. Members of the Board -- or, sorry, members of the panel, perhaps what I can ask you to do is adopt for the purposes of testifying here today the evidence that can be found at Exhibit A, tab 1, beginning at page 19, as it relates to Kirkwall metering cost allocation.

MR. TETREAULT: Yes, we adopt that evidence.

MR. SMITH: And answers to interrogatories asked in relation to that evidence.

MR. TETREAULT: Yes, we adopt that as well.

MR. SMITH: Thank you.

Before tendering the panel I should simply advise that the purpose for the evidence in relation to Kirkwall metering was as the evidence reflects in response to a directive received from the Board in a 2013 rates proceeding.

MS. CONBOY: Thank you.

MR. SMITH: That's why we have it here today.

So I have no further questions in examination-in-chief. I will tender them in...

MS. CONBOY: Thank you very much. Now, I have a sequence of cross-examination which I believe staff circulated to the parties yesterday, and I have you, Mr. Thompson, starting the cross-examination on this issue. And I've got you down for 45 minutes; is that correct?

MR. THOMPSON: Yes, that's correct, Madam Chair.

MS. CONBOY: Thank you. Please proceed.

MR. THOMPSON: Thank you. Before I do proceed, Madam Chair, I will be referring to the evidence of Mr. Rosencranz. This evidence was filed on behalf of CME, the City of Kitchener, FRPO, and the greenhouse group, Ontario Greenhouse Vegetable Growers. I don't believe it's been marked, and there is his evidence, and then there's also his responses to interrogatories.

MR. MILLAR: Yes, Madam Chair, if it assists we can mark this for identification. We also have copies of the report if you would like those handed up.

MS. CONBOY: Thank you. We have the report. Okay. Thank you. We do have the report up here.

MR. MILLAR: So we'll mark the report as K1.3.

EXHIBIT NO. K1.3: REPORT OF MR. ROSENCRANZ.

MR. MILLAR: There is also responses to interrogatories, Mr. Thompson.

MR. THOMPSON: Yes.

MR. MILLAR: I don't have hard copies of those with me, but we can call them K1.4, and hopefully they can be pulled up on the screen if that's necessary.

EXHIBIT NO. K1.4: RESPONSES TO INTERROGATORIES.

## Cross-Examination by Mr. Thompson:

MR. THOMPSON: Shall I direct my cost-allocation questions to you, Mr. Tetreault, or does it matter?

MR. TETREAULT: I think they will be for me, Mr. Thompson.

MR. THOMPSON: All right. Thanks.

Now, you have read, I assume, the report of Mr. Rosencranz marked as Exhibit K1.3?

MR. TETREAULT: Yes, I have.

MR. THOMPSON: And you've also read the answers to the interrogatories that were posed to him by Union and others, and that's been marked as K1.4?

MR. TETREAULT: Yes, I have.

MR. THOMPSON: And in this evidence at page 1, K1.3, page 1, there are five recommendations listed on page 1 there. And the first two deal with cost allocation, would you agree?

MR. TETREAULT: Yes, I would.

MR. THOMPSON: Okay. And my understanding is that Union is opposed to the cost-allocation recommendations that Mr. Rosenkranz makes in items 1 and 2 of his evidence; is that correct?

MR. TETREAULT: That's correct.

MR. THOMPSON: So we're here to deal with that opposition. And it's in the context of the Kirkwall station costs.

Now, am I correct that the issue of the Kirkwall station costs first arose in EB-2010-0296?

MR. TETREAULT: Yes, that's fair.

MR. THOMPSON: And could you just describe to the Board what that case was all about? If you can remember.

MR. TETREAULT: I can. That case was with regard to some new services Union was introducing during its last IRM. Specifically, they were ex-franchise transportation services. If memory serves, it was a C1 Kirkwall to Dawn transportation rate. We were introducing service and rate, we were introducing, as well as at the time the M12 ex-transportation service.

MR. THOMPSON: And did that case involve the construction of additional metering facilities at Kirkwall?

MR. TETREAULT: Yes, it did.

MR. THOMPSON: And was the cost of those facilities about $4.7 million?

MR. TETREAULT: Yes.

MR. THOMPSON: And what was Union's proposal, in terms of the allocation of those costs at that time?

MR. TETREAULT: At the time Union's proposal was to directly assign the revenue requirement, the costs associated with the capital investment to the C1 Kirkwall to Dawn rate.

MR. THOMPSON: And that's a transportation service rate; correct?

MR. TETREAULT: Correct.

MR. THOMPSON: Was there a direction from the Board in that case to bring forward the matters pertaining to cost allocation of Kirkwall station costs at the time of rebasing?

MR. TETREAULT: Yes, that's correct.

MR. THOMPSON: And moving then to the rebasing case, which was EB-2011-0210 -- have I got that straight, first of all?

MR. TETREAULT: You do.

MR. THOMPSON: And I asked Union to bring, if it wouldn't mind, pages 70 to 75 of that decision, so that somebody could put it on the screen. Do we happen to have that, by any chance?

Great. There it is. And so what's on the screen there, Mr. Tetreault, is excerpts from that decision pertaining to Parkway station costs, and then over at page 73 to 74, Kirkwall station costs; correct?

MR. TETREAULT: Yes.

MR. THOMPSON: And with respect to Kirkwall station costs, the company was directed, at page 74, to undertake a review of the allocation of Kirkwall metering costs as part of its updated cost allocation study, which the Board has directed Union later in this decision to file in its 2014 rates filing; correct?

MR. TETREAULT: Yes.

MR. THOMPSON: So it's that direction that is the subject matter of this proceeding in which we're now involved?

MR. TETREAULT: Yes, it is.

MR. MILLAR: Madam Chair, I suggest we marked that decision as an exhibit. I don't think it was prefiled.

MS. CONBOY: That's fine.

MR. MILLAR: It will be K1.4 we're at now, and it's excerpts from EB-2011-0210.

MS. CONBOY: Thank you.

MR. SMITH: Sorry, it's Exhibit 5.

MS. CONBOY: 1.5.

EXHIBIT NO. K1.5: EXCERPTS FROM DECISION IN EB-2011-0210.

MR. THOMPSON: Thank you. So am I correct that in responding to that directive, Union did not conduct any further studies with respect to the Kirkwall station costs?

MR. TETREAULT: That's correct. We did not conduct any specific studies, but obviously we undertook the review we needed to undertake to be responsive to the Board's directive.

MR. THOMPSON: In terms of just exploring your approach to these costs, what -- could you tell me what is a station? Is it a cluster of gas facilities at a particular location?

MR. TETREAULT: That's a -- that's a fair description, Mr. Thompson.

MR. THOMPSON: Am I correct that some stations are just meter stations, like Kirkwall?

MR. TETREAULT: Yes, that's correct with regard to Kirkwall.

MR. THOMPSON: And are other stations that have both compressor facilities and meter facilities?

MR. TETREAULT: Yes.

MR. THOMPSON: And is Dawn such a station?

MR. TETREAULT: It is.

MR. THOMPSON: And is Parkway such a station?

MR. TETREAULT: It is.

MR. THOMPSON: And are there further stations that are just compressor stations? Like Lobo and Bright?

MR. TETREAULT: Yes, that's fair. I would consider Lobo and Bright to fall into that category.

MR. THOMPSON: Thanks. If you wouldn't mind turning up -- it's a response Union provided to one of interrogatories posed to it, and this is Exhibit B9.8.

And in question (a), you were asked about how the design of the Kirkwall station facilities is affected by the distance gas is transported along the Dawn-Parkway transmission system. And the answer was:

"The design of the Kirkwall station facilities is not affected by the distance gas is transported along the Dawn-Parkway transmission system."

Have I read that correctly?

MR. TETREAULT: Yes, you have.

MR. THOMPSON: So can I take it that we can agree that the cost of meters at Kirkwall has no dependency on distance-related factors?

MR. TETREAULT: Yes, that's fair, recognizing of course that the Kirkwall station is there to support easterly design day demands on the Dawn-to-Parkway system, which is why it is treated in a manner similar to other Dawn-to-Parkway costs from a cost allocation standpoint.

MR. THOMPSON: We'll get on to that, but the distance gas flows has no causal connection to the cost of metering facilities; can we agree on that point?

MR. TETREAULT: Yes.

MR. THOMPSON: Thanks. And similarly, looking at the other side of this with respect to compression, would you agree with compression facilities are different, because the further gas travels the more compression is required?

MR. TETREAULT: Yes, that's fair, Mr. Thompson.

MR. THOMPSON: So there is a causal link between the distance gas travels and the costs the company incurs for compression?

MR. TETREAULT: Yes.

MR. THOMPSON: Okay. Now, turning to the cost allocation approach that you take, am I correct that Union has two categories that it uses for the allocation of station costs? The first is peak day demand usage of facilities? Hope I paraphrased that properly. In other words, a peak day demand allocation factor?

MR. TETREAULT: Correct.

MR. THOMPSON: And then the second is a distance-based commodity kilometre method?

MR. TETREAULT: Yes. We will refer to that either as commodity kilometre allocation or distance-weighted design day demands.

MR. THOMPSON: Now, do you understand from Mr. Rosenkranz's evidence what he doesn't like about your allocation of station costs of Kirkwall and elsewhere is the putting of metering costs in a category of costs which is allocated using a distance factor, and putting any compressor costs in a category of costs which is allocated using a peak day demand factor, i.e. unrelated to distance? That's his concern; fair?

MR. TETREAULT: Yes. And to clarify, the measuring and regulating costs do relate to, obviously, Kirkwall and other stations. However, there are no compression assets at Kirkwall. I think that's in reference to Dawn and Parkway.

MR. THOMPSON: Correct, but Mr. Rosenkranz in his -- and his evidence looks at the two, the two categories of costs, compression and metering costs; fair?

MR. TETREAULT: Yes, he does.

MR. THOMPSON: Okay. And what he does in his evidence is he looks at the Dawn station; fair?

MR. TETREAULT: Yes.

MR. THOMPSON: And at the Dawn station -- and maybe it would be helpful if you turned up attachment 1 in Exhibit K1.3. This information here, I'm sure you will be familiar with. It comes from your cost allocation exhibit, G3, I think it's tab 13, schedule 1, page 2 of 6. Would you take that, subject to check?

MR. TETREAULT: Yes, I will.

MR. THOMPSON: Maybe it's 2 of 16. I may have got that messed up.

But if we go down, if we look at -- these are the costs of the Dawn-Parkway transmission plant; correct?

MR. TETREAULT: These are the costs at -- it's a combination of costs at Dawn station as well as Dawn-to-Parkway costs.

MR. THOMPSON: If we go down to compression at Dawn -- well, just before we do that, the heading C, "Dawn station", that's the allocation -- that's a category costs that are allocated based on peak demand; fair?

MR. TETREAULT: Yes, Dawn station itself is a -- in cost allocation terms is a transmission function, and Dawn station costs are generally allocated to rate classes based on design day demands at Dawn.

MR. THOMPSON: And then the other column, "Dawn Trafalgar easterly", that's a category of costs that's allocated using the distance base factor that you mentioned previously. Is that fair?

MR. TETREAULT: Yes, that's correct.

MR. THOMPSON: And if we drop down to the compression side of the ledger, you'll see that the bulk of the compression costs are in the demand-related category of costs allocated on demand-related basis and not in the distance-based -- the category of costs that are allocated on a distance-based basis.

MR. TETREAULT: That's correct. The majority of compressor costs related to transmission at Dawn are functionalized to Dawn station and then allocated to rate classes based on their design day demands of Dawn compression.

MR. THOMPSON: And what Mr. Rosenkranz is saying, that the amounts in column C are in the wrong place. They should be in the column D, which is allocated on a distance-based basis.

MR. TETREAULT: Yes, that is his proposition.

MR. THOMPSON: And then we drop down to meter and regulating costs, which is lines 7, 8, and 9, what we see here is at line 9 is you've -- these costs are split in some way between Dawn station -- i.e., those allocated on the basis of a peak day demand factor -- and some of them are in this category of costs allocated on a distance factor basis, even though distance has nothing do with meter and regulating costs.

And so my question is, how is that split determined?

MR. TETREAULT: The functionalization of measuring and regulating equipment is done on -- there's two bases. Where we can, where we can determine that particular assets, particular costs are directly attributable to a certain system or a certain portion of providing a certain service, Union will directly assign those costs to either Dawn station or Dawn Trafalgar easterly.

So under M&R, line 7, where you see it classified as assigned, that's what that means. We directly assign costs based on how those costs are -- how those assets are being used. And then line 8 shows the remaining costs that are -- again in cost allocation terms are functionalized between various functions in Union's cost allocation study.

In the case of measuring and regulating costs, those costs are functionalized first between storage and transmission based on the expected metering activity at Dawn and then functionalized within transmission functions as you see here.

MR. THOMPSON: All right. Well, that sounds very complicated to me. Can you explain why these costs, which are not in any way related -- or not caused by distance, should find their way into a category of costs that's allocated based on a distance-related factor?

MR. TETREAULT: This is, Mr. Thompson, as I'm sure you know, this is our Board-approved cost allocation methodology. It has been for quite some time. And the reason we do that is, where we can directly assign a cost at Dawn to supporting Dawn-Parkway transmission service, we attempt to do so, and once we've done that, we will allocate those costs to rate classes on the same basis other Dawn to Parkway costs are allocated to rate classes.

So it's an attempt to be consistent and to ensure that all costs that are considered Dawn to Parkway costs are treated in the same manner, in terms of the allocation of those costs to rate classes.

MR. THOMPSON: But how can you conclude that meter and regulating costs are to be assigned, as you say, to something that's allocated on a distance-related basis when it's conceded that these costs have no causal link to the distance the gas travels?

MR. TETREAULT: As I said, Mr. Thompson, we treat the assets at Dawn that are directly related to providing service into the Dawn to Parkway system on the same basis as other Dawn to Parkway costs, and as a result we use distance-weighted demands or commodity kilometres to allocate all those costs to ensure that all of them are allocated consistently when they support the same transmission system.

MR. THOMPSON: But we're questioning the logic of that.

MR. TETREAULT: Yes.

MR. THOMPSON: And is there any logic to it, other than, we did it before and the Board approved it?

MR. TETREAULT: I think it's more than that. It is our Board-approved methodology. It's been reviewed in the past and approved, and the rationale is, as I said, though, is to make sure we are treating all costs associated with providing service into the Dawn-Trafalgar system on a consistent basis, whether those assets are at Dawn, whether they are at Lobo, Bright, Kirkwall, or other locations.

MR. THOMPSON: Okay. Well, let's move on then. So at Dawn you've got some meter and regulating costs in, we say, the proper bucket, but others not. But then when you go to Kirkwall, as I understand it, you're putting all of the Kirkwall meter and regulating costs, and I think the Parkway as well, into the category of costs that are allocated on a distance basis.

MR. TETREAULT: That's correct.

MR. THOMPSON: And so what's the -- so that's inconsistent to some degree with what you do at Dawn.

MR. TETREAULT: We do look at it differently than we do at Dawn for some measuring and regulating assets. We do that because the Dawn to Parkway is an integrated transmission system, of which Kirkwall is an integral part. And as I mentioned, any Dawn to Parkway assets and the costs associated with them are treated consistently and allocated to rate classes based on commodity kilometres.

The Kirkwall station supports our easterly design day demands on the Dawn to Parkway system, and those easterly design day demands, depending on the market they are serving, by their very nature will travel different distances to both in-franchise and ex-franchise customers.

MR. THOMPSON: But the metering costs are there to serve the contract demands that flow through the meters, right?

MR. TETREAULT: Yes, they are.

MR. THOMPSON: But you're not allocating them that way.

MR. TETREAULT: Design day demands at Kirkwall do play a role, but we also incorporate the distance-weighting, as I said, to treat Kirkwall, as it rightfully should be, as part of the overall integrated Dawn to Parkway system.

So in other words, all the costs downstream of Dawn station are treated the same because it is one integrated transmission system, and we apply the commodity kilometre allocation to all of those costs.

MR. THOMPSON: All right. Well, I'll move on. In terms of the compression costs, so at Dawn you're treating compression costs largely as costs that should be allocated on a peak-day demand basis -- i.e., no distance factor -- but at Bright and Lobo do you not do exactly the opposite? They're all in the category of costs that get allocated on a distance-factor basis.

MR. TETREAULT: That's correct. Lobo and Bright are compressor stations along our Dawn to Parkway mainline are -- the costs are allocated on the same basis as other Dawn to Parkway costs. So again, Lobo and Bright are part of the integrated system, and we allocate costs there consistent with other Dawn to Parkway costs.

MR. THOMPSON: Well, we'll argue the issue of consistency. Someone said that consistency is the hobgoblin of a sterile mind. That seems to be guiding the --

MR. TETREAULT: I think you may have said that to me before, Mr. Thompson.

MR. THOMPSON: Yeah, no, I stick with my good ones, you know.

MR. TETREAULT: I understand.

MR. THOMPSON: Anyway, to cut to the quick here, in terms of the differences between what Mr. Rosenkranz is recommending to the Board and what Union does, I think -- if we could just turn to his schedule. Sorry, attachment 2 in Exhibit K1.3.

I take it you've had a chance to look at this, Mr. Tetreault?

MR. TETREAULT: Yes. At a high level.

MR. THOMPSON: Would you take it subject to check that what's in columns A, B and C is the way you have done it in terms of your allocations of station costs, including Kirkwall metering costs?

MR. TETREAULT: Yes, I will. I should point out, however, that in the header, you'll see that we reference -- or Mr. Rosenkranz references EB-2011-0210 and a July 13th update. I just should point out that is not our final Board-approved cost allocation study. That was the cost allocation study that we filed as part of the 2013 rate case settlement in that time frame.

MR. THOMPSON: So that was just recently updated, was it? Is that what you're saying? What's the date of the further update that you're --

MR. TETREAULT: The update would have been in the Board's decision and order in the 2013 rate case, where they approved the final cost allocation study. That would have happened -- I'm trying to recall. I believe it was the end of October of 2013. We had unsettled issues coming out of the summer of 2012 that went to hearing, and that necessitated some changes to the cost study that was filed at the time of the settlement.

MR. THOMPSON: But directionally, this will show the outcome whether we use that study or the study Mr. Rosenkranz has used?

MR. TETREAULT: That's correct.

MR. THOMPSON: So would you agree with me that what he is showing in columns D and E, in line 1, is the removal of the compression costs -- sorry, it's the removal of compression -- I have to go back because I'm confused here.

Costs that you've allocated as -- on a basis of an allocation factor that doesn't involve distance. And he's put them over into column E, and the Dawn station costs in column D are limited to the metering costs at Dawn; is that your understanding of that schedule?

MR. TETREAULT: Yes, that's my understanding, Mr. Thompson, that columns D, E, F and G represent the changes as a result of Mr. Rosenkranz's recommendations.

MR. THOMPSON: But in F, what we have there is the Kirkwall-related metering costs being allocated on the basis of a demand-related allocation factor derived from volumes going through the meters at Kirkwall, and that derived from, as I understand it, Board Staff B1.3, whereas your allocation at Kirkwall had that on a commodity kilometre basis?

MR. TETREAULT: That's correct.

MR. THOMPSON: And the upshot of all of this is that -- of his recommendations as we find at line 16 over in column H, is that if the allocations are done as Mr. Rosenkranz recommends, the allocations to M12 will be greater by about 1.4 million and the allocations to the in-franchise will be reduced by about 1.4 million; is that fair?

MR. TETREAULT: That's correct.

MR. THOMPSON: Finally, in terms of the reasonableness of all of this, I think in your interrogatory responses -- for example, B9.4(f) is one example; I think there's another as well. This one deals with -- sorry, 9.4(f) is dealing with the compression side of it. There's another one that deals with the meter costs side of it. I think that's 9.3. Why don't we start there?

Exhibit B9.3 at page 2, the two questions you were asked (e) and (f):

"Confirm that the Dawn measuring and regulating costs that are assigned and allocated the Dawn station class category are not allocated to customer classes using the same methodology as the Kirkwall station metering and regulating costs."

And you confirm that at page 3, and I think we've confirmed that already in our question; is that fair?

MR. TETREAULT: Yes, that's fair.

MR. THOMPSON: Then you were asked:

"Would it be reasonable to include all of the Dawn metering and regulating costs functionalized as transmission in the Dawn station cost category?"

And your answer was -- (f) at page 3, what you're saying there, as I interpret it, is you're not suggesting what Mr. Rosenkranz is recommending is unreasonable. You're just saying it's one of the reasonable ways of doing it; is that fair?

MR. TETREAULT: That's correct. I think it's fair to say that with cost allocation, there could be a number of reasonable approaches to take in terms of the allocation of classes to rate classes.

We do feel that our Board-approved methodologies are superior to Mr. Rosenkranz's recommendations, and best reflect cost causality.

MR. THOMPSON: Finally, at B9.4 at page 2, you were asked similar questions with respect to compression in (e) and (f), and in terms of (f) about the reasonableness of it, at page 3.

Once again, you imply that what he is recommending is a reasonable way of doing it, but it may be one of more than one reasonable way of doing it?

MR. TETREAULT: Absolutely, there could be more than one reasonable way of doing it. Again, not to repeat myself, but we feel that the Board-approved methodology that we use is superior to any of the recommendations, and best reflects how those costs should be allocated to customers.

MR. THOMPSON: We'll argue that. Thank you very much. Those are my questions.

MS. CONBOY: Thank you, Mr. Thompson.

Mr. Buonaguro, will you be –- oh, Mr. Quinn will be doing the cross.

MR. QUINN: Yes, Madam Chair. Sorry for the confusion.

I actually had put a placeholder in. Clearly, Mr. Thompson has come a long way in terms of his understanding of meter regulating compression, and regarding detail relative to the facilities components of those cost allocation methodologies. I was going to support him. I think he has done a very good job of covering the main basis of our evidence, and I will not add to the record.

MS. CONBOY: Thank you very much.

Mr. Shepherd, I have you up next, with 15 minutes on my schedule.

MR. SHEPHERD: At the risk of disappointing the Board, I don't have any further questions either. Mr. Thompson has covered the field.

MS. CONBOY: That is a disappointment. Well, I think that puts us, thankfully, ahead of schedule, and on to you, Mr. Millar.

## Cross-Examination by Mr. Millar:

MR. MILLAR: Not thankfully for me, but let me have a quick go. Mr. Thompson did cover some of our stuff, so I'll try to work through relatively quickly what we have left.

I'll confess, Mr. Tetreault, I don't understand this at the level that some of my friends do, so you may have to bear with me a little bit. I want to go over some high-level concepts with you.

First of all, I understand that the annual costs allocated to customers with respect to the Kirkwall station are about 1.57 million; have I got that right?

MR. TETREAULT: That's correct.

MR. MILLAR: Under the current and proposed methodology, the allocation works out to about 84 percent to M12 and about 16 percent to Union's southern in-franchise customers; is that correct?

MR. TETREAULT: Yes, that's correct. One clarification. The 16 percent for in-franchise is a combination of Union south and Union north customers.

MR. MILLAR: I see. Most of that would be to Union south. Is that fair?

MR. TETREAULT: That's correct.

MR. MILLAR: Okay. So I'll still call it that, and with the understanding that there would be some minor allocation to the north.

So by my math, if you currently -- from the 1.57 million, at 16 percent in-franchise, that gives you about $251,200 allocated to the in-franchise customers every year; is that correct? Approximately?

MR. TETREAULT: Yes, approximately.

MR. MILLAR: And the balance would be -- would go to the M12?

MR. TETREAULT: Correct.

MR. MILLAR: And that, of course, is the methodology you propose to continue?

MR. TETREAULT: Yes, we did.

MR. MILLAR: And I know that Mr. Rosenkranz has presented an alternative idea that you've already discussed with Mr. Thompson. As a bit of a thought exercise, we asked you to consider something different, and maybe in that regard I could ask you to pull up staff interrogatory -- I guess it's marked as B1.3.

MR. TETREAULT: I have it.

MR. MILLAR: Okay. And you're familiar with it. I assume you were involved in the preparation of the responses to that?

MR. TETREAULT: Yes, I was.

MR. MILLAR: And you'll see, if you scroll down just a little bit, under C, we asked you to sort of consider a different methodology. We said:

"Please provide a description of the methodology and associated allocated cost by rate class, assuming the costs of the Kirkwall metering station are allocated to recognize the bi-directional flow."

So you see that question, and then you've provided the response -- I guess there is an attachment at the end of this interrogatory response. It's on the next page there. And I think that the long and the short of it is the allocation worked out somewhat differently. It would have been about 98 percent to M12 and about 2 percent to the in-franchise?

MR. TETREAULT: That's correct.

MR. MILLAR: And we ran a bit of math on that, and would you take subject to check that if you were to do the allocation in that way, the cost allocated to in-franchise would be about, I think about $34,000? Would you take that subject to check?

MR. TETREAULT: That's correct. That's referenced on Exhibit B1.3, attachment 1.

MR. MILLAR: Okay. Great. Yes, yes, you're absolutely right, and then of course the balance would go to M12.

MR. TETREAULT: That's correct.

MR. MILLAR: And so again, by my simple math, the reduction for in-franchise customers would be about $217,000 a year, if you were to go by that methodology.

MR. TETREAULT: That's fair.

MR. MILLAR: This may be in the evidence, and forgive me if I missed it. If you were to adopt Mr. Rosenkranz's methodology -- and I'm sure you went over this and I missed it -- but how would the -- how would -- how much money would in-franchise customers be paying under Mr. Rosenkranz's methodology? Is that number available, or is it something you can provide?

MR. TETREAULT: I believe it's either in his evidence or in some of the IR responses that he would have -- that he would have provided the -- I must say the exhibit is escaping me at the moment.

MR. MILLAR: You know, I don't want to dwell on it, so if it is on the record we can find it, and...

MR. TETREAULT: I believe it is, Mr. Millar.

MR. MILLAR: Okay. Thank you for that.

And just briefly, can you tell me why -- I mean, we asked you to run the numbers on that methodology. I know it's not what you proposed, and again, I'm talking about Staff's -- I don't want to call it a proposal, but an idea of a methodology. Can you tell me what would be improper about that as a methodology?

MR. TETREAULT: My primary concern with that methodology is the inclusion of westerly demands. So for example, in Exhibit B1.3, attachment 1, you'll see at line 3 we've included, based on Staff's question, Kirkwall to Dawn demands of approximately 1.7 -- sorry, 1,700 103m3s a day, Kirkwall to Dawn being a westerly path on the Dawn-Trafalgar system.

So my concern with that approach is that the Dawn to Parkway system itself is not designed to meet a westerly peak day demand. The system is easterly peaking, winter peaking system. And the facilities in the ground are designed to meet an easterly peak day demand.

So the inclusion of westerly demands in the allocation of costs that are based on easterly peak day did not seem appropriate to me. I should add, however, that Kirkwall to Dawn, which is a transportation service available under C1, they do contribute in rates to the recovery of Dawn to Parkway costs, but from a cost allocation perspective you want to have the costs allocated to the rate classes based on how those costs are being incurred on a design day basis.

MR. MILLAR: Thank you for that.

Sticking with B1.3, staff also asked you -- this is question B of B1.3 -- does Union intend to review the cost allocation methodology at the next rebasing to better reflect actual flows of natural gas within the system, and your response is a simple one. It's, yes, you will be reviewing that.

Is that part of your ongoing review that you would do of any cost allocation, or is this something above and beyond that?

MR. TETREAULT: I think it's part of our ongoing review. Whenever we enter into a cost-of-service rebasing proceeding we obviously need to take a look at our cost allocation methodologies, consider what's happening on the system, and make sure that those methodologies continue to be appropriate.

MR. MILLAR: So whatever the outcome from today's proceeding, Union will be looking at this again for the next rebasing, and it's possible we'll have a discussion about it at that time?

MR. TETREAULT: It's possible.

MR. MILLAR: Thank you. Thank you very much. Those are my questions.

MS. CONBOY: Thank you, Mr. Millar.

Mr. Smith, have you any redirect?

MR. SMITH: No, I do not.

MS. CONBOY: Thank you very much. Well, that's everybody I had on for cross-examination, obviously. Mr. Wallace you get to buy Mr. Tetreault lunch for taking all the answers. The panel is excused with our thanks, and we have enough time before lunch to have Mr. Rosenkranz affirmed and on the witness stand.

While that's happening I should mention the Panel has a hard stop no later than quarter to 1:00, so we'll just see where the natural break is at that point. But based on what I have in front of me, we should be fine, and perhaps even able to get on to the next issue.

Mr. Thompson, your witness is ready to be affirmed --

MR. THOMPSON: Yes, I would like to introduce John Rosenkranz. He is being presented here to assist the Board by CME, the City of Kitchener, FRPO, and OGVG.

MS. CONBOY: Thank you.

# CANADIAN MANAGERS & EXPORTERS - PANEL 2

**John Rosenkranz, Affirmed.**

MS. CONBOY: Thank you. Good morning, Mr. Rosenkranz.

Mr. Thompson, would you like to take over?

MR. THOMPSON: Yes, thank you, Madam Chair. Just before I begin, I should indicate to the Board that what we are asking the Board to consider in this case are recommendations 1 and 2 and Mr. Rosenkranz's evidence. We accept that 3, 4, and 5 we can raise later in the rebasing process.

MS. CONBOY: Thank you.

# Examination-In-Chief by Mr. Thompson:

MR. THOMPSON: And with that, Mr. Rosenkranz, did you prepare -- sorry, your prefiled evidence is marked here as Exhibit K1.3, and the answers to interrogatories posed to you by Union and Board Staff -- or maybe not Union, by -- posed to you by Board Staff and others marked as Exhibit K1.4, did you prepare these documents?

MR. ROSENKRANZ: Yes, I did.

MR. THOMPSON: Thank you. Now, in terms of your professional experience, there is at the back of Exhibit K1.3 your CV. I should say, Madam Chair, I spoke to Mr. Smith this morning, and he indicated to me he had no objection to Mr. Rosenkranz's qualifications, so I don't intend to dwell on that if that's satisfactory to the Board.

MS. CONBOY: That is, Mr. Thompson, thank you.

MR. THOMPSON: What I would do, though, just to ask you, Mr. Rosenkranz, if you go to page 2 in the summary of regulatory proceedings, we see the fourth item down is a Union Gas case before this Board in July 2011.

Did you provide cost allocation evidence in that case?

MR. ROSENKRANZ: Yes, I did.

MR. THOMPSON: Were you accepted as one qualified to provide that opinion evidence in that case?

MR. ROSENKRANZ: Yes, I was.

MR. THOMPSON: And subsequently in the Union rebasing case, which is referred to at the top of this list under "Regulatory Proceedings," did you provide evidence in that case on cost allocation matters?

MR. ROSENKRANZ: Yes, I did.

MR. THOMPSON: And were you accepted as one qualified to provide opinion evidence on that subject matter?

MR. ROSENKRANZ: Yes, I was.

MR. THOMPSON: Thanks. Now, coming to Exhibit K1.3 and K1.4, are there any material corrections to be made to this testimony?

MR. ROSENKRANZ: Yes. We caught one item that should be corrected for the record. On page 4 of K1.3, towards the middle, three lines up from the title "Union Gas Cost Study," the last sentence in the previous paragraph, it says:

"The Board declined to consider the rate allocation issues."

That should be "cost allocation issues." That was a slip.

MR. THOMPSON: Now, subject to that, do you adopt under oath in this proceeding the evidence that you have provided at Exhibits K1.3 and K1.4?

MR. ROSENKRANZ: Yes, I do.

MR. THOMPSON: Now, could you briefly describe to the Board your concerns and what you are recommending to resolve your concerns?

MR. ROSENKRANZ: Yes. This is following up on, as was explained earlier, some previous cases when the Kirkwall metering costs were looked at, and also in the last case part of my study was to look at the overall Parkway costs.

The concern that came up had to do with how the Kirkwall costs should be allocated, and particularly the move from allocating those costs based on the design day demand through those facilities and to an allocation based on distance. As was pointed out, there's no evidence that the costs are distance-related and that it would be more reasonable to allocate those costs based on the actual use of those facilities.

It also would make sense to have some consistency in the treatment of the metering and regulating costs for the Kirkwall station, Dawn station and Parkway station, since all of those are integral parts of the Dawn-Parkway system.

With respect to this case we're looking at, we're recommending the same type of usage-based treatment of the Parkway M&R costs, unlike -- that's consistent with the last case, although in this case we're looking specifically at the M&R case, where last time we looked at both the M&R costs and the compression costs.

With respect to Dawn, we're again looking for a consistent treatment and raise some additional concerns in terms of how the functionalization of the M&R costs and compression costs have been done. We're not seeing the consistency there, so we're recommending that there be consistent treatment of the M&R costs based on peak usage and compression costs which are necessary to move gas through the system. It would be more reasonable to have those based on a distance-based cost allocation methodology.

One final point is the importance of the -- cost allocation certainly has an important -- it's important for the allocation of costs and development of rates for the various rate classes and the allocation of rates between in-franchise and ex-franchise customers, but also the allocation of costs feeds into the development of rates for various services of -- and the rates for various services play an important role in providing cost signals to new contracts and development of new facilities.

One thing that's changed in recent years, which I think bears on the re-evaluation and reconsideration of these Dawn-Parkway system costs, is that you now have a growing demand for Kirkwall-to-Parkway service, which is using new Kirkwall metering facilities which were required to provide that service, and it's also driving an increase in requirement for facilities, and particularly compression facilities, at Parkway based on the current methodology, because that's a relatively short haul. Although it is requiring these expensive new investments, it's picking up a relatively small portion of the cost.

That's another reason for re-evaluating this cost methodology and the reason why the cost methodology that might have been reasonable five years ago, 10 years ago, may not be reasonable today.

MR. THOMPSON: Thank you. Those are my questions.

MS. CONBOY: Thank you very much. Mr. Smith?

## Cross-Examination by Mr. Smith:

MR. SMITH: Mr. Rosenkranz, pleasure to see you again. I just have a few questions for you.

You testified in the EB-2011-0210 proceeding; correct?

MR. ROSENKRANZ: Yes.

MR. SMITH: And that was Union's rebasing proceeding?

MR. ROSENKRANZ: Correct.

MR. SMITH: And can we agree that Union's cost allocation method was approved by the Board in that case?

MR. ROSENKRANZ: Certainly, subject to directives to reconsider certain things. Correct.

MR. SMITH: And can we agree that the purpose of a rebasing proceeding, as the name implies, is to set base rates, which will then be in place during an incentive regulation period?

MR. ROSENKRANZ: I would agree with that.

MR. SMITH: And can we then agree that the purpose of an incentive regulation framework, or one of the purposes, is to provide for the mechanistic adjustment of rates through a pre-agreed or pre-imposed by the Board formula, on an annual basis?

MR. ROSENKRANZ: I'm not -- I was not involved in the incentive rate cases, but that sounds like the objective of going to that type of program.

MR. SMITH: And can we agree that the effect of your proposals would be to increase the base rate payable by M12 customers?

MR. ROSENKRANZ: That would be, if all of the recommendations are adopted, and -- that would be an outcome.

MR. SMITH: And it would be a decrease in the base rates payable by other customers?

MR. ROSENKRANZ: Again, based on my estimates of the impact, that would be the outcome.

MR. SMITH: Now, you filed evidence in the last case, the rebasing case. And can we agree that your recommendation, number one, was identical to the recommendation that you have in this case, number two, as it relates to Parkway station?

In other words, you proposed in the last case that Parkway station costs should be separated from other Dawn-Trafalgar easterly transmission costs and allocated to rate classes based on design day flow requirements? That was your recommendation?

MR. ROSENKRANZ: The recommendation in this case is different, in that as –- in terms of what should be dealt with in this case, we are focusing on the metering and regulating costs only, not the compression costs. They're...

MR. SMITH: But in substance your recommendation, as I understood it in that case, was to assign certain costs at Parkway station on the basis of design-day flow rather than distance-weighted demands, and that's effectively what you're proposing here in relation to Parkway station, is it not?

MR. ROSENKRANZ: With respect to the metering costs at Parkway, yes, the recommendation here is consistent with the recommendation in the last case.

MR. SMITH: And that recommendation was not adopted by the Board.

MR. ROSENKRANZ: In its entirety it was not.

MR. SMITH: And indeed, what the Board said at page 73 in the excerpt from the decision that Mr. Thompson took you to -- and maybe it's worth pulling it up, just in fairness to you.

So what the Board said under Board findings, that the Board agrees with Union that in-franchise customers benefit from the Parkway station. The Board also notes, as highlighted by Energy Probe, that there may be a number of unintended consequences associated with Mr. Rosenkranz's proposal, the consequences of which have not been considered in the context of this application. The Board will therefore not approve the separation of Parkway station costs from overall Dawn-Trafalgar easterly transmission costs, as you had proposed, and then the Board went on to say that it would revisit this as part of Union's 2014 rates proceeding, but after the outcome of the Parkway obligation working group. Correct?

MR. ROSENKRANZ: I agree with -- that's what the Board said, yes.

MR. SMITH: Okay. So the Board, it's fair to say, was basing its conclusion on what was anticipated to be come out of -- come out of the Parkway obligation working group, fair?

MR. ROSENKRANZ: That's not the way I interpret it. I interpret it as being that there were a number of issues raised particularly by Energy Probe that -- saying that that recommendation should not be adopted in that case, and going back to -- reviewing the transcript, my understanding is Energy Probe was referring specifically to that case, and they were concerned about the impact of the much larger cost-shifting that's related to the -- primarily the compressor cost being the larger impact there.

And one of the case -- I'm sorry, I need to get to your point about the Parkway obligation working group. One of the concerns raised by Energy Probe in their argument was that there may be some implications coming out of that Parkway obligation working group. I don't see any connection between the Parkway obligation settlement that's been filed here and the principles of cost allocation that are in the recommendation.

MR. SMITH: I think we can agree on that.

Now, can I ask you to turn to your recommendation number 1. Now, that relates to Dawn compression plant and operating and maintenance costs, correct?

MR. ROSENKRANZ: Yes.

MR. SMITH: And is it fair to conclude that you made no recommendation at all in relation to this issue in the rebasing proceeding?

MR. ROSENKRANZ: The -- not directly. If you go back and look at my earlier case, part of the -- part of the objective was to make the cost allocation at Parkway consistent with what we understood to be the cost allocation at Dawn, so there was a tie-in. There were no -- there was no analysis of the Dawn facilities in that study -- in this study, to be more -- make sure that there was some consistency with the treatment of the Kirkwall, Parkway, and Dawn metering assets.

I did go back and look at the cost allocation and back one step, the functionalization of cost at Dawn, and that's where the recommendations for this case are coming --

MR. SMITH: Maybe it was the precision of my question.

MR. ROSENKRANZ: Okay.

MR. SMITH: You didn't make a recommendation to change the cost allocation relating to Dawn station costs in the last case, did you?

MR. ROSENKRANZ: I did not.

MR. SMITH: Okay. Now, I just wanted to pick up on one thing you said in your examination-in-chief. You talked about meters and regulators not being related to distance. Did I understand that correctly?

MR. ROSENKRANZ: That's my understanding of cost drivers.

MR. SMITH: Now, would it be fair to say that there are other station-related costs, like for example the cost of the land or the cost of the bricks and mortar, which also are unrelated to distance?

MR. ROSENKRANZ: That's a good point, and that's certainly something that goes to a deeper engineering analysis of which of those costs are related to compression and which are related to metering regulation. Certainly when you're looking at Kirkwall station all of the facilities there have the same function, because there is only one function going on there, which is metering.

MR. SMITH: And all of the costs, the bricks, the mortars, the meters, and the regulator, are all allocated on distance-weighted demand, correct?

MR. ROSENKRANZ: Can you clarify which station you're...

MR. SMITH: Kirkwall.

MR. ROSENKRANZ: Kirkwall? Kirkwall, that's the current situation, yes.

MR. SMITH: Those are my questions. Thank you.

MS. CONBOY: Thank you.

MR. MILLAR: Madam Chair, if I may, it's Michael Millar. I wasn't down for anything. I had a single question for Mr. Rosenkranz. If I could have that indulgence?

MS. CONBOY: Please go ahead.

## Cross-Examination by Mr. Millar:

MR. MILLAR: Good morning, Mr. Rosenkranz. Michael Millar, counsel for Board Staff. I just wanted to follow up on a question I had for Mr. Tetreault to see if this information is indeed on the record.

You will recall I discussed with him how the costs are currently allocated, and how they propose to allocate them at 84 percent in favour of M12 and 16 percent in favour of in-franchise. That's on 1.57 million.

If your proposal is adopted, do we know what that allocation would become, what percentage would be allocated to in-franchise versus M12?

MR. ROSENKRANZ: For the purpose of this study, looking only at the Kirkwall costs, the methodology that you raised appear to be consistent with the methodology that we were proposing, so we would -- we've adopted those same numbers.

MR. MILLAR: Okay. So it would be close or the same to what we had presented in staff B1.3, question C.

MR. ROSENKRANZ: 1.3.

MR. MILLAR: Okay. Thank you very much. Those are my questions.

MS. CONBOY: Thank you. Mr. Thompson, have you got any redirect for your witness?

MR. THOMPSON: No, thank you.

MS. CONBOY: Thank you very much. You are excused with the Board thanks, Mr. Rosenkranz.

We will take a ten-minute break, and that should give you time to get your next witness panel up, which, I'm hoping they're available, even though the timing --

we're --

MR. SMITH: They are available.

MS. CONBOY: -- making good time. Great. So we'll come back at five after 12:00. Thank you.

### --- Recess at 11:55 a.m.

### --- On resuming at 12:07 p.m.

MS. CONBOY: Mr. Smith, would you like to introduce your witnesses before we have them affirmed?

MR. SMITH: Yes. We have with us Mr. Wallace, again, who holds the position of system planning and project development.

To his right, we have Mr. Hockin, also of Union Gas, who is essentially here to speak to the financial aspects of the evidence that you have.

And we have Ms. Jackie Caille closest to me, who is the director of residential and commercial sales.

I'll ultimately ask the panel to adopt the evidence. I should observe that this is a bit unusual. Union agreed to the inclusion of what would not normally be a rates proceeding in this proceeding. And pursuant to the Board's procedural order, we did file certain prefiled evidence, I believe on May 28th.

MS. CONBOY: We have that.

MR. SMITH: There was no evidence filed by any other party. And as I sit here today, I don't know what it is that my friends will be asking for in terms of relief. So I'm at a bit of a loss, but I'm prepared to have the witnesses adopt the evidence. It will mean that I don't have any examination-in-chief, because I don't know what it is I should be highlighting.

But with that, maybe what I will do is ask the members of the panel, through you, Mr. Hockin --

MS. CONBOY: Why don't I have them affirmed first, and then we'll go through that?

And while Ms. Fry is starting that, we may -- I will ask either Mr. Buonaguro or Mr. Quinn to give us an indication of exactly what their issues are.

# UNION GAS - PANEL 2

**Dave Hockin, Affirmed.**

**Jackie Caille, Affirmed.**

**Daniel Charles Wallace, Previously Affirmed.**

# Examination-In-Chief by Mr. Smith:

MR. SMITH: So, members of the panel, under cover of letter dated January 27, 2014, Union filed evidence with respect to the Leamington expansion pipeline project. Do you adopt that evidence for the purposes of testifying here today?

MR. HOCKIN: Yes, we do.

MR. SMITH: And Union had also earlier answered certain interrogatories and supplementary interrogatories received from OGVG and perhaps others. Do you adopt those as well?

MR. HOCKIN: Yes, we do.

MR. SMITH: Thank you. I have no questions.

MS. CONBOY: Thank you very much. I understand that the cross of OGVG will be done -- both of you? Okay. So I leave it to you.

## Cross-Examination by Mr. Buonaguro:

MR. BUONAGURO: Thank you. I'll begin.

Good afternoon, panel. My name's Michael Buonaguro. I'm counsel for OGVG. And I'll be starting, and Mr. Quinn has additional questions right at the end. So that we're not diving in without some context, I'm going to ask you some preliminary questions just to set the issues.

First of all, when we talk about the Leamington project, we're talking about --

MR. HOCKIN: Mr. Buonaguro, could you move your mic just a little closer? Thank you.

MR. BUONAGURO: No problem. When we talk about the Leamington project, we're talking about 8.5 kilometres of natural gas pipeline in the Municipality of Leamington in the town of Lakeshore in the county of Essex, and that's from your application -- or, sorry, the additional evidence you filed?

MR. HOCKIN: Yes.

MR. BUONAGURO: My understanding is that the at the time of the application for leave-to-construct, and I presume finally, the capital cost of that line was $8.2 million; is that correct?

MR. HOCKIN: Approximately 8.2, yes.

MR. BUONAGURO: Thank you. And the in-service date would have been November 2013?

MR. WALLACE: Yes, that's correct.

MR. BUONAGURO: Thank you. Now, as I mentioned and it's in your evidence -- and thank you for filing the additional evidence. It helped set the stage. The -- in the original -- in that evidence you have a leave-to-construct application, and from the leave-to-construct application -- which is at Exhibit A, tab 6, appendix A, and I'm talking specifically about paragraph 23 -- it tells me that there are actually no customers attached directly to that pipeline. Rather, the pipeline increases the capacity of the local network; is that correct?

MR. HOCKIN: Give us a chance to turn that up. You're referring to?

MR. BUONAGURO: Exhibit A, tax 6, appendix A, paragraph 23. There are no page numbers, so I had to go by paragraph number.

MR. WALLACE: That's correct.

MR. BUONAGURO: So in terms of using the new pipeline, it actually handles load for the entire local distribution network? It doesn't actually specifically serve a discrete subset of customers; is that right?

MR. WALLACE: That pipeline is one of a number of feeds to the entire market.

MR. BUONAGURO: So my understanding is correct?

MR. WALLACE: The pipeline serves the market in the Leamington and Kingsville area.

MR. BUONAGURO: Thank you. For example, new residential divisions in that area are also being fed by that pipeline?

MR. WALLACE: They could receive flows from that pipeline.

MR. BUONAGURO: Thank you. My understanding from some of the interrogatory responses, and I'm specifically thinking of B12.5, part (c) of the interrogatory responses we received, that the line is, quote, "100 percent subscribed"; is that correct?

At least that was the answer to one of our questions.

MS. CAILLE: So the line currently, as -- subsequent to receiving Board approval to construct the pipeline, we entered into negotiations with individual growers. There are -- a substantial amount of it has been contracted already, and we're going customer-by-customer for the remaining capacity. There are enough customers in the waiting list that we will contract with all of those customers prior to the end of this year.

MR. BUONAGURO: Thank you. That helps. So when you say "100 percent subscribed," notwithstanding the fact that some of them are -- to enter into contracts, "100 percent subscribed" means that the pipeline has been spoken for through contracts with, in this case, specific case, with growers?

MS. CAILLE: Yes, correct.

MR. BUONAGURO: So it doesn't necessarily mean that right now or even two years from now, that the pipeline is full?

What I'm trying to get at is it doesn't necessarily speak to how the pipeline is used or who is using it, because I think we established before the pipeline isn't actually connected specifically to customers. It's connected to the distribution system in that area as a whole.

So when you talk about subscription and it being 100 percent subscribed, we're talking about contractually subscribed?

MR. HOCKIN: Maybe I can try this, and we'll let the engineer detail it if necessary. But if you can picture the Panhandle line running through southern Ontario between Windsor and Chatham, for lack of a better word, it's an east-west line.

The line that we're referring to is a northwest -- north-south line. It feeds off of that Panhandle line, comes straight south, and it is a loop of an existing pipeline. The existing pipeline feeds the area. There's a station there. Customers would be fed off that station, and then further south of that, eventually you get to the lake and the Town of Leamington and the general distribution area from there.

This is a loop of that transmission line, so there are no customers that are physically connected to the feed off that line, but that line feeds the Comber station -- if I'm correct, on the correct station -- and then from there, the gas enters the rest of the distribution network where customers are connected.

Does that help kind of set the --

MR. BUONAGURO: Yeah. I was mainly concerned about what it meant to say it was "100 percent subscribed." I think I got that answer, which is that it's -- that's the contractual, when you look at how many people -- you've taken the capacity of the pipe and you've divided it into chunks and you have contracts you can point to for each part of those chunks, and then 100 percent --

MR. SMITH: Maybe Mr. Buonaguro could go a bit slower and the witnesses could allow him to finish, so that the reporter is --

MS. CONBOY: Okay. And before we get there, could you turn to page 39 of the Leamington evidence? I believe you have a map, if everybody is at the right spot. Mr. Hockin, you were just describing -- or perhaps -- that's not the one I was thinking of, but that doesn't matter. If you could pull up a map, please. This doesn't help the court reporter, but that's what I was looking at. It says -- it's Exhibit A, tab 6, appendix A, and there seems to be a page 39, and it's the page right before Ontario Energy Board Staff's submission on the Leamington expansion pipeline project.

MR. HOCKIN: I am looking at -- thank you for holding it up. It's the coloured map. And what is your question for me then?

MS. CONBOY: I'm just saying, is this what you were just describing, in terms of the loop?

MR. HOCKIN: Yeah, what I will try to describe then for the map is that there is a reference on that line called the Panhandle 20-inch, which is a pink line running on the page left to right, and then there is a vertical line running north to south, which is a green line. The green line that is on that line which is right beside the pipe called Leamington North NPS8 is the pipe that was just installed. It is installed physically in my world anyway from a non-engineering perspective beside the existing pink line. So it is a loop of the pink line.

MS. CONBOY: Thank you.

Please proceed, Mr. Buonaguro.

MR. BUONAGURO: I'll try to slow down. Thank you for the warning. I'm under a lot of pressure to be efficient.

Thank you. Now, in seeking the leave to construct, my understanding is that Union had to demonstrate that the project was economically feasible, and initially as part of the original application your discounted cash-flow projection suggested the project would require $2 million to construct, collected from any customers seeking to use the added capacity; is that correct?

MR. HOCKIN: That's correct. That's the original evidence.

MR. BUONAGURO: Thank you.

Now, in terms of the revenue forecast -- and this is described in your evidence -- sorry, in terms -- well, in terms of the forecast revenue over the -- for the use of the -- for the purpose of the discounted cash-flow analysis, Union states that it forecast revenue ten years from forecast attachment. That's at Exhibit A, tab 6, page 2. Is that correct?

MR. HOCKIN: Yes.

MR. BUONAGURO: Now, when I look at the -- and my understanding is the discount cash-flow analysis comes out of guidelines and requirements from EBO 188? I think you mentioned that, at least in the application.

MR. HOCKIN: Yes.

MR. BUONAGURO: Now, when I look at the EBO 188 guidelines, it appears to me that they specify that the revenue forecast is supposed to be generally 40 years from the initial in-service date, and then there's a caveat, which is 20 years for large-volume customers.

Can you explain to me why in your discount cash-flow analysis Union would not have used a 20-year revenue forecast, why you would only forecast revenue ten years out from attachment?

MR. HOCKIN: When we do our discount cash flow we take a look at the types of market that we have. The EBO 188 did mention 40 years, but that is a residential application, so those are customers that make a decision once, if you will, for a very long period of time. Typically the other project -- oops.

MS. CONBOY: We plant one of those chairs in every hearing room.

MR. HOCKIN: To be quite honest, Madam Chair, it happened to me 20 years ago as well.

MR. BUONAGURO: It's not the chair, it's you.

MR. HOCKIN: It is clearly me, so...

When we take a look at doing the appropriate discount -- or appropriate revenue term for customers, we take a look at the types of customers that they are. Typically contract customers are ten years maximum.

MR. BUONAGURO: All right. Now, but the EBO guidelines specify 40, which I think you acknowledged, and then you said that's residential, which I think is correct, but then it says for large-volume customers it will be 20 years.

Now, there is nothing in there about going down again to ten years. So I'm trying to understand why that happened here.

MR. HOCKIN: I don't have that in front of me, sir. I know that when we talk about EBO 188 those are maximums in general terms. The most appropriate way to look at it is, what's a reasonable term for a revenue horizon, given the types of customers that we're dealing with?

MR. BUONAGURO: Okay. So I won't get into argument over what EBO 188 says or your interpretation of it. I do want to confirm, though, that you believe and you acted in this case on the assumption that 20 years for large-volume customers was not necessarily the guideline and that there is some leeway to go below that?

MR. HOCKIN: I will say that ten years is the typical standard that we would use for other customers independent of them being greenhouses. So another customer, if this was a single customer, ten years would typically be kind of the length of the term that we would use for the discount cash flow, unless there's a reason as to why the contract would be longer.

MR. BUONAGURO: And why would you stop at ten?

MR. HOCKIN: We have -- I will admit there have been cases where the term has been longer because the customer has chosen to contract longer.

MR. BUONAGURO: I see. So you -- that suggests to me that the length of the revenue forecasts that you choose for the purpose of the discounted cash-flow analysis is specifically related to the contract length.

MR. HOCKIN: No, it's pertaining to the risk associated with the revenue stream. So if I did a discount cash flow for ten years for a particular customer and the customer PI was less than 1 and the customer said, What if I contracted for 15 years, and a very good example of that would be a power plant. Some of those go for 20 years because they have contractual arrangements with the OPA to produce power, so they're able and prepared to do that. Then we would look at a 20-year term associated with that.

MR. BUONAGURO: Okay. Now, in this particular case, if we extended the revenue forecast to capture a 20-year horizon, my understanding is that that would capture for the people who initially -- it would capture another ten years of revenue from the forecast customer attachments in November/December of 2013, and it would add another seven years of revenue related to the customers that you're forecasting -- well, at least I should say seven, eight, or nine years for the customers you're forecasting to attach in '14, '15, '16, something like that?

MR. HOCKIN: There are two methodologies. You've given me one. One methodology is 20 years from the time the customer connects, so that would be 20 years from year one or 20 years from year three, or the methodology that you described as 20 years total regardless of whether or not they connected in one, two, or three.

MR. BUONAGURO: So right now the discount cash-flow analysis in leave to construct assumes that after year 13 there's no revenue.

MR. HOCKIN: Correct.

MR. BUONAGURO: Okay. And I think it's trite to say or suggest, and I hope you agree with me, that if you do actually assume revenue -- and let's start with the assumption that the revenue continues at the same level it did in year 13 or year ten for the customers that attached initially, right through to year 20 for a total revenue horizon of 20 -- the PI would go up?

MR. HOCKIN: Yes, it would.

MR. BUONAGURO: And it would actually go up substantially, because after ten years or 13 years you already have a PO of 1.0, having recovered the capital costs.

MR. HOCKIN: If we add ten years of revenue the PI will be higher. I don't know what that number would be, but it would certainly be higher. The question is whether or not it's reasonable to assume that customers would continue to use that and whether or not that's a risk that should be put on the utility and the rest of the ratepayers.

MR. BUONAGURO: All right. But your assumption then, which I presume you think is reasonable, is to assume zero revenue after ten years.

MR. HOCKIN: That's what the base assumption is with this, and this is entirely consistent with every other way that we've been doing things, other line extensions, for the last 25 years that I've been around.

MR. BUONAGURO: All right. Thank you.

Now -- okay. Thank you. Now, the discount cash-flow analysis has -- projects load, in a sense, in order to -- as part of the revenue forecast; is that correct?

MR. HOCKIN: Can you try that again?

MR. BUONAGURO: Well, you have to project load to apply to the rate in order to provide revenue, right, in order to do the discount cash-flow analysis?

MR. HOCKIN: Yes, the revenue stream is based essentially, simplistically, volumes times price.

MR. BUONAGURO: Okay. So in terms of the volume forecasts that's embedded in your analysis, did it differentiate between, for example, new greenhouses, or we're talking about growers -- new greenhouses versus old ones? And so for example, you may have on the one hand a 20-year-old operation using old technology that would require 11,000 gigajoules per acre, versus a new energy-efficient greenhouse with energy curtains and hot-water storage that only needs 5,500 breaker -- 5,500 gigajoules breaker; i.e., you might have on the one extreme 5,500, and the other one uses 200 percent, the gigajoules. Does your load forecasting analysis for the discounted cash flow capture those differences?

{Witness panel confers]

MR. HOCKIN: First off, you mentioned some figures in your question. We have no knowledge of what those are. I can tell what you was done.

What was done was equating per acre to a gas usage of X cubic metres per hour. And the numbers are in the evidence. There was -- an existing acre was equated out at 100 cubic metres -- sorry, the other way around. An existing acre was 125 cubic metres per hour, and a new acre was equated out at 100 cubic metres per hour. That's in the evidence. That's in several of the interrogatories.

The difference between the two really are recognition that a new acre is probably going to use a higher level of efficiency and therefore would have less gas usage. Whether or not it was a new acre which was constructed today, tomorrow or the next day, it's a factor, so roughly 25 percent less consumption, if you will.

That gave us the number of acres that that piece of pipe could supply, and we multiplied that through by price to determine what the revenue stream is.

So we got, I think, to your result. It wasn't in the methodology that you spoke about in your question.

MR. BUONAGURO: Thank you, but one clarification. When you talk about the difference between the new rate of 100, and I guess the old rate or existing rate of 125, the existing rate would be applied to all acres that existed at the time of the calculation?

MR. HOCKIN: No, I believe the 125 was applied to customers who were interruptible in converting to firm service. So if I was the owner of that land, I was receiving service under one rate class, I changed service underneath the new rate class, there isn't anything happening per se to the operation associated with that. So it's just a change in service.

So it was existing acres at existing consumption, if you will.

MR. BUONAGURO: When you talk about "new," what you're talking about is -- the only difference between existing and new are -- is the new one relates to the fact that they weren't existing customers; they're new customers? That's what it sounds like.

So new customers were assumed to attach at a rate of 100 cubic metres per hour per acre, and existing customers, i.e. customers that are already in your system as interruptible were assumed to have a use of 125 units per hour?

MS. CAILLE: Perhaps I'll take that from Mr. Hockin. The "new" meant new capacity attached to the system, so it could be an existing customer that was adding additional capacity. And when -- "conversion" is somebody who is either -- who was an interruptible customer and converting to firm capacity, so it was an existing operation and changing the type of contract they had from an interruptible service to a firm service.

MR. BUONAGURO: Thank you. That helps.

MS. FRY: Can I interrupt? Just another question of clarification. When you're calculating the number of acres, is it the area of the greenhouse itself or is it or is it the entire parcel of land on which the greenhouse would be situated?

MS. CAILLE: The number of acres is a capacity, so it's the amount of gas capacity that can be delivered. Because this section of pipeline was built because of the request from the greenhouse community, that we had a constrained system there, for ease of purpose, rather than saying it in m3s or gigajoules, to translate to the customer, we spoke about it in numbers of acres.

So it's really what the pipeline capacity can deliver, and it can be in more than one parcel of land.

MS. FRY: So it would be how much land the pipeline capacity could service?

MR. HOCKIN: I guess if I were to respond to your -- I would say it is the number of acres under glass, if you will, not the plot of the customer's property per se. Is that a better way of --

MS. FRY: Okay. Yeah, that's -- at a high level what I was asking. Thank you.

MR. BUONAGURO: Thank you. But then that rate was applied to every acre that we're talking about, regardless of the underlying actual gas use that they may exhibit or the differences in gas use that particular operations may have?

MR. HOCKIN: For purposes of the original filing and the updated filing, that created the economics, yes.

MR. BUONAGURO: Thank you. Was the load forecast based on any actual consumption numbers?

MS. CAILLE: The load forecast was created based -- as an establishment using the expression of interest from the grower market. So when -- prior to the Board receiving the application and approving the application, we held open houses with the grower community and asked them to indicate whether or not they would be willing to contribute to the pipe.

We used the results of that in order to create the forecast to provide to make -- to do the economics.

MR. BUONAGURO: I see.

MS. CAILLE: So yes. I should have started with yes, sorry.

MR. BUONAGURO: I asked if you used actual consumption; you told me you used the expression of interest information?

MS. CAILLE: Yes.

MR. BUONAGURO: My understanding is the -- I think data that you would have collected from the expression of interest information from growers would have told you how many acres they had and whether they wanted firm or interruptible service? That's what it says.

MR. HOCKIN: Can we make sure we're on the same timeline?

MR. BUONAGURO: Yes.

MR. HOCKIN: You asked the question: What did you do? And that speaks to the original forecast and the updated forecast as -- in March of 2013.

What we did at that point in time was use an average per acre based upon some knowledge, as well as the types of acres, the mix of acres that were -- as part of the forecast.

So that establishes the economics, the baseline case, if you will, for proceeding down the path of the leave-to-construct and the approval and constructing.

Thereafter, there's a second process, and I don't know if that's kind of what your question is, which is individual customer says: I signed up for five acres. What do I need to do? And in that case, it would be some specific discussions and review with that customer about the gas usage that they've used, the gas usage they anticipate, and things of that nature.

So I don't want to digress and get off-track with you, but I'm not sure what timeline we're speaking of or whether or not we're getting mixed on that.

MR. BUONAGURO: I'm going to get to questions like that. It's off-track, but it's on the map.

The original question I had was whether the load forecast that was used for the purpose of the discounted cash flow analysis which was used in the leave-to-construct, whether it actually used actual load consumption.

What I'm understanding from you is that load forecast was based on information received from -- I guess you would call it -- an open season, which is the filling out of the form where it's indicated the growers were supposed to indicate how many acres they had and whether it was firm or interruptible, and then presumably using your per-acre assumptions, 125 and 100, you built the forecast based on the total number of acres? I think it was that simple?

[Witness panel confers]

MR. HOCKIN: Substantively, yes. The expression of interest was for less than 100 percent of the load, so there was some existing customers and there's some prospective load that we would anticipate that would come on as a result.

MR. BUONAGURO: Thank you. I have a question about -- when we're talking about these customers, we're talking about M4 and M5 customers by rate class; am I correct?

MR. HOCKIN: The contract customers would be contract Rate 4 and Rate 5.

MR. BUONAGURO: M4. I know there was M4 and 5.

MR. HOCKIN: The rate class is called M4 and M5 for contracts, yes.

MR. BUONAGURO: Thank you. Can you tell me, absent any issues surrounding the need to build to capacity, how would a normal M4 customer, for example, approach Union to sign up for service?

So for example, if I have a customer and they say: I have needs to connect to your system, what's the process?

MR. HOCKIN: There's an economic process and an engineering process.

So the first question that would be asked of Union is: Is there capacity? Within Union, is there capacity? And there would be some engineering assessment to determine if there's capacity.

If there is capacity, then there would be an assessment of whatever costs we would have to upgrade a customer station, as an example.

MR. BUONAGURO: So customer site-specific costs?

MR. HOCKIN: Customer site-specific costs.

MR. BUONAGURO: I'm not worried about those. Thank you for pointing that out. You can move on to the next one.

MR. HOCKIN: Can I frame your question? If your question is if the customer station has capacity but there is no capacity upstream, is that the type of question I'm trying to answer, or --

MR. BUONAGURO: No, no, I'm saying there's capacity. There may be site-specific costs that are involved, right, that they have to build a line or whatever. That's customer-specific costs. But there is capacity in the system. You just have to connect them with the system, and there's costs. So I understand that.

The question is what -- and I'm going to put you to what I think the answer is. You have to find out how much gas they need, right?

MR. HOCKIN: In short answer, there would be a discount cash-flow analysis done to determine the incremental revenue compared to the incremental costs, whatever those might be, in order to service the load that's being requested.

MR. BUONAGURO: Right. And incremental revenue would be based on their actual needs. They would tell you how much gas that they need, wouldn't they?

MR. HOCKIN: Yes.

MR. BUONAGURO: And then you would consider that when entering into an M4 contract with them?

MR. HOCKIN: Yes.

MR. BUONAGURO: Right. So they would enter into a contract which was for the gas that they actually needed?

MR. HOCKIN: Yes.

MR. BUONAGURO: Thank you.

Now, if that gas -- those gas needs change from year to year, and assuming again that there's capacity -- I understand that's always an issue, but -- or likely it can be an issue -- if after the first year they're going into their second year, Oh, we actually need 20 percent more gas, and you have capacity, what do they do to change the contract?

MS. CAILLE: So it depends on the customer's contract terms, so at the renewal of their contract the customer can discuss with us what their parameters are and whether they need incremental volume, and if there is capacity there we would then renegotiate the contract terms to the new parameter. But it's at contract renewal that a customer will approach us.

MR. BUONAGURO: Now, my understanding from -- my limited understanding of the contracting process that the minimum term is one year?

MS. CAILLE: My understanding, yes, in the rate schedule is that for M4 and M5, as we've been talking about earlier, that the minimum term is one year.

MR. BUONAGURO: Right. And I think part of those contract terms suggest to me that customers can actually terminate their contract as long as they give three months' notice at the end of a contract year? Before the end of a contract year, sorry; I misspoke.

MS. CAILLE: Subject to check, I believe that's correct.

MR. BUONAGURO: So for example, in theory someone could sign up for an M4 contract, it could be for five years at a certain volume or minimum amount of volume, and in year two they decide -- they see that that contract doesn't give them enough gas, they're going over, and so they need to renegotiate.

So either you would renegotiate with them or I presume they would terminate their contract and then enter into a new one for the new volume? Something like that?

MR. HOCKIN: Can you -- what I thought I heard you say is the customer had a five-year contract and then was making a decision within that period. So that's a different circumstance than what you were discussing with Ms. Caille, which is an annual contract and then new parameters upon the expiry of the annual term.

MR. BUONAGURO: So if they only -- in one scenario you could simply enter into a series of one-year contracts and enter into a new contract every year for the new amount, right?

MS. CAILLE: Presuming the economic analysis for that attachment supports a one-year term. So depending on the cost of the project of attaching a customer, their initial attachment may require longer than a one-year term.

MR. BUONAGURO: Okay. But if they have a longer-than-one-year term, am I understanding from the M4 contract's terms and conditions that they can terminate that contract on three months' notice before the end of a contract year?

MS. CAILLE: At the end of the contract, not each contract year.

MR. BUONAGURO: Okay. Well, we'll have to disagree based on what I've read, and I can leave that to argument if it's necessary.

MR. SMITH: Sorry, I'm not sure that I agree with that. If my friend is intending to make an argument based on a document that's not put to the witness and not in evidence, I don't think that's appropriate.

MS. CONBOY: Mr. Buonaguro?

MR. BUONAGURO: Can I get an undertaking for them to standard their standard terms and conditions for M4 contract, including the standard contract form?

MS. CONBOY: Mr. Smith?

MR. SMITH: Well, I think a better question would be -- well, I think maybe what we should do is look at whether there is a standard contract, because what I understood the witnesses to be saying is it would depend on the economics, and the terms and conditions relating to renewal may vary, so I'm not sure that I can give the undertaking exactly as my friend has asked for it. But what I can do, and which is responsive to his line of questioning, is as I understood his question to be, regardless of the length of term of contract on three months' notice the customer is entitled to terminate the contract, and perhaps what we can do is look to see whether that's correct and file the contract that would be consistent or inconsistent with that.

MS. CONBOY: Is that what you were after, Mr. Buonaguro?

MR. BUONAGURO: Well, I can tell you what information I'm going on. I went to Union Gas's website. I went to the M4 section. The M4 section shows a standard contract, standard terms and conditions, and when you feed -- if you go through all those and you find out the terms under which someone can terminate the contract, it says, under one section, that you can terminate the contract as long as you give three months' notice prior to the end of a contract year, as opposed to the contract term, which may be for more than one year. I'm trying -- my understanding is that that's how -- one way your normal M4 customer would get out of a contract or renegotiate their gas usage in order to mirror what their actual needs are in the coming years.

I understand what you're saying. You're saying that there may be multi-year contracts. Are you telling me that there may be multi-year contracts which cancel that term of the contract? So that's what I'm looking at. If they can answer that...

MR. SMITH: I'm prepared to give the undertaking. All I'm observing is I don't think it's appropriate to base an argument when we don't have the document on the record and simply someone's understanding.

MS. CONBOY: Okay. So here's what we'll do. We're going to break for lunch right now, because we do have a hard stop. Perhaps, Mr. Buonaguro, you could point to Mr. Smith where you found this on the website. If -- and if it's a standard contract, then it's a standard contract, and I don't think that we need an inordinate amount of time in order to provide the undertaking and for the witnesses to be able to talk to their understanding of that contract. Okay?

So we will break for an hour, and we'll see everybody again at quarter to 2:00. Thank you.

### --- Luncheon recess at 12:45 p.m.

### --- On resuming at 1:50 p.m.

MS. CONBOY: How did we make out over the lunch break with respect to: Is there a standard contract or not?

MR. SMITH: Well, what we were able to do, members of the Board -- and I hope it's of assistance -- we were able to identify what Mr. Buonaguro was no doubt referring to, which is essentially a shell of a contract. And then we were also able to identify contracts that actually underpin this project, so rather than speak in the abstract.

So I have both the shell M5A contract, and the redacted -- to protect the customer's name -- M5A contract has a term beginning November 1, 2013, which specifically underpins the Leamington project.

So I would propose to file both of them so you have them.

MS. CONBOY: Have we got copies?

MR. MILLAR: Yes, we do, Madam Chair. We'll call the shell M5A contract K1.6, and the actual redacted M5A contract K1.7.

EXHIBIT NO. K1.6: Shell M5A contract.

EXHIBIT NO. K1.7: Redacted M5A contract.

MR. SMITH: And the answer to Mr. Buonaguro's question can be easily identified in the shell of the contract. And the wording is, I would say, inelegant in the shell of the contract, and there's perhaps some ambiguity, but in the M5A contract that actually is entered into, it's apparent that the customer is not at liberty to terminate the contract during the initial term.

MS. CONBOY: Okay. So let's have a -- look at that. Who is talking?

MR. BUONAGURO: I am, sorry. I'm just trying to understand what he said, because I think he said the shell one, which is the one that I've seen before, which doesn't have any redacted. Did you just say, Mr. Smith -- the part that I was talking about is on page 2 of 4, the "Contract term," second sentence:

"Subject to the provisions hereof, this contract shall continue in full force and effect for each contract year until notice to terminate is provided by either Union or the customer. Such notice must be delivered at least three months prior to the end of the contract year."

As I read that, it was pretty clear on the shell contract you could terminate in any contract year as long as there was three months' notice.

MR. SMITH: No, because the period of the contract year is also subject to negotiation. In other words, you could have a contract, in theory you could have a contract that -- the shell, you could have a contract year that's longer than a year.

But if you look at the M5A contract, the same provision, the actual contract under section 3, "Contract term," it provides in this contract that the contract shall have" -- "shall continue in full force and effect for a period of six contract years..."

The, quote, "initial term."

"... and continuing thereafter on a year-to-year basis, unless written notice to terminate is provided by one party to the other at least three months prior to the end of the then-current term."

So the intention is you can terminate three months prior to the first six years, and then because it rolls every year for one year, you can always terminate three months thereafter.

MS. CONBOY: Why don't we -- it appears to me that Mr. Buonaguro was using -- K1.6 is the shell? Is that a 6 or an 8?

MR. MILLAR: It's a 6.

MS. CONBOY: Was using K1.6 in absence of having K1.7. And perhaps, Mr. Buonaguro, you can start your questions, presumably starting with 1.7. But I'll leave that to you, and to the extent that there is some clarification required, I'm sure that our witnesses will do their best to answer that.

And there is certainly no dispute here in terms of the redactions, the appropriateness of them.

MR. BUONAGURO: Thank you. Actually, what your counsel was explaining just now I understood to be true, reading K1.7, which is the -- this is actually a Leamington-specific contract, so I'm going to refer to it as that.

It's clear on here that the term was increased to six years or specified as six years, and that the notice provisions were changed in order to provide that they couldn't be terminated until the end of the six years. But those are changes that were made relative to the shell document, which is found online, at K1.6; correct?

MS. CAILLE: That's correct.

MR. BUONAGURO: Thank you. I also noticed in the Leamington-specific one, not only is the term specified for six years and the notice provision changed, but there's actually reference to expansion facilities and a leave-to-construct, which aren't in the shell one. So those are added specific -- in this case to the Leamington project, right?

MS. CAILLE: That's correct.

MR. BUONAGURO: Thank you. I won't dwell on it. I have them now.

Moving on, once the company had approval of the project -- and the approval of the project which is in the material was on the basis of no capital contribution from customers; correct?

MR. HOCKIN: In aggregate, the revenue exceeded the cost for the 10 years, as a -- I'll call it a homogeneous pool. That's correct. There was no aid required. There was no upfront payment required in aggregate for the project.

MR. BUONAGURO: Thank you. Once you have the leave-to-construct in place, the decision approving the project on the basis of your application, you then went to individual customers to sign them up, contract with them?

MS. CAILLE: Yes. So we would have approached first the customers who had, during the expression of interest, stated that they wanted, so yes. Correct.

MR. BUONAGURO: I'm going to ask you some questions about that. Now, at Exhibit A, tab 6, page four, beginning at line 12, just so we're clear, you talk about the two steps.

First is the site-specific cost for the distribution capital for each customer was estimated, or were estimated. When I'm asking questions, I'm not asking questions about that; I understand that, and I understand that that's on a customer-by-customer basis based on very specific potential capital needs related to that customer; correct?

MR. HOCKIN: Yes.

MR. BUONAGURO: It's not the project; it's customer-specific costs?

MR. HOCKIN: Well, yes, those are specific, but the economics done for the customer include those plus the common costs, if you will.

MR. BUONAGURO: As a component of the overall economics, I'm not asking questions about that. I want to be clear so that we don't get bogged down, having to throw that in every time I ask a question.

With respect to the second part and then following in the evidence, my understanding was that for the customers that you're approaching, they had really two choices in order to get signed up as an M4 and M5 customer. They could either agree to pay $9,000 per acre if they were asking for interruptible service, or $18,000 per acre if they wanted firm service in advance as an aid to construct. If they did that, they were able to enter into a one-year contract as an M4 or M5 customer. That was one option. And I think you said one customer did that?

MS. CAILLE: Yes. One customer elected to do that.

MR. BUONAGURO: Right. Quick question. I asked you earlier about switching the revenue forecast, the horizon from 10 to 13 years depending on attachments. And your total was 13 in that case, 10 for the customers that attached right away and 13 years for the customers who attached one, two or three years later.

If you had changed that to a 20-year revenue forecast and actually continued to account for revenue assuming that people stayed on and those acres stayed connected throughout the term, 20 years, would that have changed the calculation of the 9,000 or $18,000 per acre? Would that have affected it?

MR. HOCKIN: No.

MR. BUONAGURO: How come?

MR. HOCKIN: Let me think about that.

No, it would not.

MR. BUONAGURO: Okay. I asked you why -- you haven't answered, but let me get to the next question, which I think is the answer, which is that in theory -- I'll put this proposition to you. In theory every customer faced with that choice had chosen -- well, had refused to sign more than a one-year contract. So let's say everybody that you approached didn't want to sign a one-year contract, so everybody you were counting on to -- in your customer attachment forecast, everybody who you approached said, We don't want to sign more than a one-year contract. We want to pay the upfront cost. They all paid either 9,000 or 8,000 -- $18,000 per acre based on their -- based on whether they were a firm interruptible. The total amount that you would have collected is about $8.2 million, which is the capital cost of the project, right?

MR. HOCKIN: That's correct.

MR. BUONAGURO: Which means that if nobody wanted to enter into a contract for more than one year, so if nobody wanted to enter into a contract that looked something like K1.7, you would have had a need to construct from customers of 100 percent?

MR. HOCKIN: Hypothetically. Didn't happen, but hypothetically.

MR. BUONAGURO: Hypothetically. True enough. And I think, actually, you answered a similar IR question. I think it's -- just for the record, it's B2.5, page 1A is the cite for that, for where I got the numbers that add up to 8.2 million.

And then if you take that -- in order to create a discounted cash-flow analysis that included an $8.2 million capital contribution, the associated load forecast is zero, or revenue stream is zero. You're assuming zero revenue over the ten or 20 years -- well, zero in perpetuity in order to make that discounted cash-flow analysis work, right? In order to come to a legitimate capital contribution of zero, the revenue stream has to be zero -- sorry, of 100 percent, it has to be zero.

MR. HOCKIN: Can you try your question one more time, please?

MR. BUONAGURO: I hacked it up a bit. But if -- in order for the capital contribution that's required to equal 100 percent of the capital costs, you would have to assume a revenue stream of zero.

MR. HOCKIN: In your example that's substantively correct. Essentially what we've done is, you've used the term "aid" for the 9- and 18,000. The 9- and 18,000 is simply the unitized cost of that asset. It is almost the same as the net present value. There are some tax consequences. I'm going to ignore those for that purpose.

So it is an allocated cost. It isn't an aid per se. And so if there's 510 acres and we were able to collect 9,000 and 18,000 for those acres, our investment for that would be zero. And then we would be attaching customers thereafter for distribution cost only.

MR. BUONAGURO: Right. And in that case there would be nothing at the rate base?

MR. HOCKIN: For that piece of pipe, correct.

MR. BUONAGURO: Right. But then you would still be generating full revenue based on existing rates for whatever they actually do use.

MR. HOCKIN: Well, the rates that we -- sorry, the revenue that we receive from the customer is for all assets, if you will, associated with that customer. So this was an incremental asset. You've asked me to ignore the distribution costs to connect those customers for your question, but those costs are still incurred as part of the investment in order to actually connect those customers as well.

MR. BUONAGURO: I don't quite understand that, but I don't think it's important for me. So thank you.

Now, this approach suggested to me that essentially what you were doing was dividing the actual project into mini projects for each individual customer that you wanted to sign up and doing a mini discounted cash-flow analysis for each one. Is that a fair characterization?

MR. HOCKIN: I can go with that.

MR. BUONAGURO: Yes? And the cost of each mini project was an allocation of the total cost of the project based on acreage and whether the proposed service was firm or interruptible.

MR. HOCKIN: Correct.

MR. BUONAGURO: And then the projected revenue flow was either zero if they paid the full amount or, if the customer -- which would only happen if the customer said, I don't want to sign more than a one-year contract under the terms you're proposing. Or the projected revenue flow was an amount that would fall out of a calculation that basically divided the capital costs as allocated by acreage by whatever term the customer had agreed to.

So for example, the revenue flow was -- in this case it was six years -- it was an amount that was calculated on the basis of the acreage times either 8 -- 9,000 or 18,000. That's how you came up with the revenue flow.

MR. HOCKIN: No. That's incorrect.

MR. BUONAGURO: Okay.

MR. HOCKIN: The revenue for any particular customer is based upon the ten-year revenue stream. You get to a six-year term because the total cost for that particular customer, the allocated cost of the transmission line, plus the site-specific distribution costs, with a revenue term of ten years, results in a PI of something more than 1.

Back-calculating on behalf of the customer, how far back -- how short a term does a customer need to contract for in order to get to a PI of 1, and then the sample contract, six years would have got them to a PI of 1.

So we didn't do a DCF based upon a six-year term. We did a DCF based upon a ten-year term, and that particular customer has a PI greater than 1, with a minimum ten-year forecasted revenue stream. They're only contracted at a contractual basis to perform for six years underneath the MAV contract for the parameters that were used in that particular circumstance.

MR. BUONAGURO: My understanding from some of your evidence was that if -- let's start with the six. In this particular contract, if they had said seven, We want to do a seven-year term, okay, then the minimum annual volume would have gone down, right?

MR. HOCKIN: Yes.

MR. BUONAGURO: And if they said they wanted to do a three-year term, the minimum annual volume would go up, right?

MR. HOCKIN: Yes.

MR. BUONAGURO: And that's -- the up and down is in order to maintain the same ultimate result, right?

MR. HOCKIN: Yes. The principle of what's behind the calculation is, there's an investment required, and we're simply trying to contract a term that underpins the revenue term associated with the investment decision.

MR. BUONAGURO: So in this case the aim is to collect the full 18,000 or 9,000 times the acreage for the particular farm in a particular set number of years, so for example, in this case the six-year term and the minimum annual volume associated with the six-year term is targeted to collect the culmination of the site-specific costs, which we haven't talked about because we're not concerned about it as much. And their calculation of 18,000 times whatever acreage their farm has to be -- or their operation happens to be. That's what drives -- that's how you figure out what the minimum annual volume is, once you throw in the rate that they're going to get charged for that volume.

MS. CAILLE: So I just did a pause to clarify with my colleague. The minimum annual volume is actually determined by the customer. So in order to get their allocation of this pipeline that was built specifically for that market, the customers who have asked, they will approach us and tell us what they expect to consume.

Upon Mr. Hockin stating how the economics are done, we start at a ten-year term that gives them the PI. The customer will determine, as you said in your example earlier, if they pick a three-year term, their minimum annual volume would be higher. If they pick the seven-year term you described, their minimum annual volume would be lower, and the customer based on their own business and operations, will make the determination of what contract that they want to enter into, anywhere from as short as one year up to and including ten years.

MR. BUONAGURO: Thank you.

MS. CONBOY: Mr. Buonaguro, I hesitate to interrupt, but I'm struggling up here trying to figure out where you're going. If I remember correctly, your client chose not to intervene in the leave-to-construct application. There was evidence presented about the profitability index of that Leamington line, and the Board granted leave to construct.

I understand you're not questioning the issue of the leave to construct. What I'm trying to figure out now is, where are you going with your questions, so I can get the most I can out of your cross-examination.

MR. BUONAGURO: Thank you. I'll try to summarize what we've raised in our intervention and then through our IRs and then now through our cross.

MS. CONBOY: Please do.

MR. BUONAGURO: But the -- as I've set out in our cross, and it's in the evidence, the leave to construct suggested there was no need for a need to construct, because the discounted cash-flow analysis showed that the project was going to be financially viable, economically viable --

MS. CONBOY: If I recall, that was within the proceeding that that changed, but not in the original application.

MR. BUONAGURO: Yes, and they --

MS. CONBOY: Okay.

MR. BUONAGURO: -- changed the forecast, and the approval was given on the basis of the company's assurances that the new discounted cash flow analysis showed that there would be no aid to construct.

MS. CONBOY: Within the proceeding?

MR. BUONAGURO: Within the proceeding.

So the issue here is that when the company then went out to contract with the customers, the customers were faced with a choice, and the choice was to pay a share of the total capital cost based purely on acreage as a 100 percent, from their perspective, capital contribution, and then enter into one-year contracts at their actual consumption, or whatever a normal M4 contract would be for that customer once you have capacity issue out of the way. Or they were compelled to enter into a multi-year contract, which was not based on their actual projected consumption but rather based on a calculation which sought to re-create discounted cash flow for that customer based on acreage and the 18,000 or $9,000 per acre charge, again, without reference to their actual needs.

So they only had two choices. So the question that we're raising and exploring is whether that's an appropriate sequence of events as a precondition for any of these customers wanting to get service on Union's system, and in particular using the capacity on this line.

MS. CONBOY: Okay. Thank you.

MR. BUONAGURO: I think you answered my last question. There's evidence -- in your evidence, you talk about there having been one lump sum payment; correct?

MS. CAILLE: Yes. Correct. One customer who had two acres chose to pay upfront rather than enter into a multi-year agreement.

MR. BUONAGURO: Right. So how is that lump sum payment treated from a rate base perspective? Was that treated as a capital contribution against the project?

MR. HOCKIN: I haven't seen the transaction, but that would be the appropriate treatment, would be reduction to rate base.

MR. BUONAGURO: So you agree that's what it should be, but you're not sure. Can I get an undertaking to check on that, to see if that's how it's being treated?

MR. HOCKIN: Yes, we can undertake to do that. The standard accounting for that would be a credit to rate base.

MR. MILLAR: J1.2.

UNDERTAKING NO. J1.1: TO CONFIRM WHETHER APPROPRIATE TREATMENT WOULD BE TO TREAT LUMP SUM PAYMENT AS A CAPITAL CONTRIBUTION AGAINST THE PROJECT.

MR. BUONAGURO: I was going to ask you if any --

MR. SMITH: Sorry, I should observe -- we'll put this in the undertaking, but because of the time at which the project came into service relative to Union rebasing, I don't believe there's much, if anything, of the line that's actually in rate base. But it will come into rate base when Union rebases again, but we can reflect that in our --

MS. CONBOY: It should be -- I mean, it's a relatively straightforward undertaking in terms of confirmation of the treatment and whether it's in the existing rate base now. So thank you.

MR. BUONAGURO: Thank you. I was going to ask you --

MS. CONBOY: We were just given a number, but I see it was J1.2, but -- maybe I'm missing something. What was J1.1?

MR. SMITH: That must have been to provide the contracts.

MS. CONBOY: Okay. So we've got those as exhibit numbers now. Perhaps we can just call the undertaking of the rate base treatment of the capital contribution as J1.1.

MR. MILLAR: Very good.

MR. BUONAGURO: Thank you. Now, my understanding is we're at a point where other than that one customer, every other customer signed a contract for some term between, presumably, two and 10 years. I believe the evidence says it's an average of seven years?

MS. CAILLE: That's correct.

MR. BUONAGURO: All those contracts have minimum annual volumes associated with them?

MS. CAILLE: That's correct.

MR. BUONAGURO: And the minimum annual volumes are calculated in the way that we discussed, reflecting -- some calculation involves the acreage plus -- times either 18,000 or 9000, depending whether it's firm or interruptible, and plus some accounting for site-specific costs, if there are any. I believe that's accurate.

MR. HOCKIN: The MAV is calculated by the customer selecting some parameters. By guidance, they're given some information as to the number can't be lower than X if you want six years or lower than Y if you want seven years, based upon those parameters that we spoke to. But it's created by the customer selection, not by the parameters themselves.

MR. BUONAGURO: For example, is it possible that two customers, both running 20-acre farms, that want to sign up for new firm service both ask for six-year terms, and assuming they have zero or identical site-specific costs, their minimum on new volume would be the same?

MR. HOCKIN: There's a lot of parameters there. If you just...

MR. BUONAGURO: Yeah, sure. So there are two customers. They're both signing up for service. They both have 20-acre farms. They both want firm service. So 20 times the calculation would include something involving 20 times 18.5 thousand. And assuming that their site-specific costs are identical or both zero, my assumption is that the minimum annual volume that you're telling them that they have to include in that six-year contract would be the same. And they would have the option, presumably, of increasing that minimum volume if they happen to have consumption above that, but you're going to tell them the starting point for both of them will be the same, from your perspective?

MR. HOCKIN: The answer is yes, with a proviso. So the proviso is the MAV -- sorry, the minimum term as we've calculated out is based upon an expected revenue. So identical customers with the same CD, with the same load pattern, with all the same parameters all the way through would have the same number.

But you may have a customer that has a very high CD and a low load factor, and vice versa with overall consumption, but similar customers, very, very similar customers would have the same revenue stream, and therefore with the same input cost on the cost side of things, the term would come out to be the same.

MR. BUONAGURO: Thank you very much. Now, my understanding is that -- and I think, again, this is in evidence, that if -- once you have the minimum annual volume in place during that term, and we'll use the six-year example, during that term if in any particular year they fall below that minimum annual volume, they're subject to -- I'll call it a penalty, but essentially they have to pay for gas as though they had consumed the minimum volume, whether they do or not?

MS. CAILLE: Yes, that's correct. We would apply the contract terms, that if they don't meet the minimum annual volume, there is a calculation and assessment done.

MR. BUONAGURO: Okay. I'm culling some of the questions that we've covered.

Okay. My understanding -- and this is from an interrogatory response I got. This is Exhibit B12.1, attachment 1. There is approximately -- for 2013 and 2014 there's approximately $4.3 million embedded in rates for DSM for the M4 and M5 classes? I'm not sure DSM is your purview, but...

MS. CAILLE: I will say it is not my purview.

MR. BUONAGURO: Would you take it subject to check, with that reference, that you have a lot of money in rates, and for this particular rate class, M4 and M5, that amount is approximately 4.3 million for those two rate classes combined?

MS. CAILLE: Subject to check. If we filed that in evidence prior, I would...

MR. BUONAGURO: The point is there's money in rates for DSM targeted for these particular rate classes. Thank you.

And some of the customers we're talking about, customers that are taking service because of the Leamington expansion project, some of these customers may be targets of DSM spending?

MS. CAILLE: That's correct.

MR. BUONAGURO: And if they are, if they have been the target of these programs or will be in the future, the result should be a decrease in their consumption?

MS. CAILLE: It could be, depending on the customer's operation.

MR. BUONAGURO: Thank you. And that decrease would or could cause them to fall below their minimum annual volume? If the DSM is really successful, for example?

MS. CAILLE: Again, it could be. However, we have seen actually the opposite, increasing in load because of customers expanding their operations.

MR. BUONAGURO: But if their operation stays the same, their load should go down?

MS. CAILLE: It could. Yes.

MR. BUONAGURO: Thank you. Now, as their consumption falls below their minimum annual volume, they're paying a larger penalty amount, right? Under the contract?

MS. CAILLE: They would. The customer would have selected the minimum annual volume to begin with, so they have established that volume that they want to commit to over the term, that they've signed up.

MR. BUONAGURO: But the minimum annual volume is also driven in part by the acreage allocation. I thought we established that.

MR. HOCKIN: Maybe I can just correct your statement. You said that if they fall below the minimum annual volume they're going to pay more --

MR. BUONAGURO: Well, I didn't say they pay more. They're going to pay -- there is a minimum annual volume. They're going to pay that much.

MR. HOCKIN: They're going to ultimately pay the revenue that we had underpinned in their original calculation, so --

MR. BUONAGURO: What I'm suggesting is that if --

MR. HOCKIN: It's not more.

MR. BUONAGURO: -- if they are the subject of a DSM program and their volume goes down because of the DSM program, then the amount they pay -- more of what the amount they pay will be penalty under -- for not having achieved their minimum annual volume. If DSM causes their consumption to go down by 100 units, that's 100 units below the minimum annual volume that they're going to pay for anyway on distribution charges.

MR. HOCKIN: The revenue will be the same, right.

MR. BUONAGURO: Yes, thank you. And at the same time Union would track that revenue in an LRAM? You don't know? We can take it subject to check when Union --

MS. CAILLE: Not our area of expertise.

MR. BUONAGURO: Yeah. Well, when Union -- when Union does DSM programs they track the results, and the results are tracked in an LRAM. You don't want to take that subject to check?

MR. HOCKIN: I can't speak to it.

MR. BUONAGURO: Okay. If I'm right, though, that means that the decrease in volume would be collected by Union both as penalty for not having met the minimum annual volume but also in the LRAM?

MS. CAILLE: Again, it's not my area of expertise.

MR. BUONAGURO: You can speak to the minimum annual volume part, which you already have.

MS. CAILLE: Yes, and the customer has selected the minimum annual volume, so they would determine what they're, over the term of the contract, agreeing to use as a consumption volume.

MR. BUONAGURO: Thank you. One last question from me, and then I'm going to turn it over to Mr. Quinn. I note in the evidence -- it's actually in the evidence and also -- I think it's at page 7 of your overview, and I think you actually set it up in part of my earlier questioning -- that Union is projecting additional expansions in this area to accommodate even more load related to the same type of customer? Is that -- did I understand that correctly?

MS. CAILLE: Yes, that's correct.

MR. BUONAGURO: All right. And can I assume that Union would be intending to use the same approach to any required leave-to-construct process as it did in this case?

MS. CAILLE: Yes, that's correct.

MR. BUONAGURO: And would Union be intending to use the same approach to contracting with new customers utilizing the new capacity as in this case?

MS. CAILLE: Pardon? Can you repeat? I didn't...

MR. BUONAGURO: That was a little --

MS. CAILLE: Speak a little slower? Yeah.

MR. BUONAGURO: That was fast.

MS. CAILLE: I was trying -- I'm sort of trying to follow.

MR. BUONAGURO: Sure. Is Union intending to use the same approach to contracting with customers, utilizing the new capacity, as it did in this case?

MS. CAILLE: Yes, we would use the same methodology using the capital cost for that particular project at the capacity available in order to calculate a unitized rate, as Mr. Hockin described earlier.

MR. BUONAGURO: And then spread that unitized rate on an acreage basis across customers?

MS. CAILLE: In that particular market, yes, we translate it into acres to make it more customer-friendly, rather than talking on an M cubed per hour basis, which is not a language that they speak in the greenhouse-grower market.

MR. BUONAGURO: Thank you. I'll turn it over to Mr. Quinn.

MS. CONBOY: Mr. Quinn, you have 25 minutes.

## Cross-Examination by Mr. Quinn:

MR. QUINN: Thank you. If I can ask you to turn up interrogatory response B12.4, please. So we're trying to establish an understanding of the communication that went from management to the agents that were actually doing the contracting, and I was particularly surprised at the response. There is no internal correspondence that addresses contracting practices for the items listed above.

Are you speaking in general, or are you speaking to the Leamington line?

MS. CAILLE: We were speaking with respect to the Leamington line. And pardon, Mr. Quinn, were you asking whether we had communication externally? I undertook the question to say internal communication ourselves.

MR. QUINN: That's correct. So you answered the question in the context of the Leamington line?

MS. CAILLE: That's correct.

MR. QUINN: Okay. So if I say this differently, you're saying there was no communication from Union to its contract agents from the original expression of interest and application for the line, including the period after they subsequently told the Board that there is no aid to construction required?

MS. CAILLE: Can you ask the question again? I'm not following. Pardon?

MR. QUINN: At the initial application there was an aid to construction. That was communicated to customers that the Board was going to require an aid to construction. Subsequently Union told the Board they did not need an aid to construction, but that wasn't communicated in any way to your agents who were actually doing the contracting?

MS. CAILLE: Can you clarify you what mean by "agent"?

MR. QUINN: Union has a representative that engages the individual customer in the process of contracting. That's what I'm referring to as a contracting agent.

MS. CAILLE: So -- thank you for the clarification. We would call those account representatives, so that's why I was trying to clarify the terminology. I'm not aware of specific communication that occurred. We did the expression of interest initially that identified the cost per acre per customer. Once the revised customer mix was filed, the cost per acre to customers decreased, and that was what was communicated to the customers when we approached them, that the initial 10.5 for interruptible and 20,000 -- I would have to look at the number -- had reduced to the 9,000 and 18,000 an acre that we're referring to now.

MR. QUINN: But you're saying you didn't tell your -- I'm sorry, I don't know the term you use, but --

MS. CAILLE: Agent. You can say "agent". I --

MR. QUINN: -- your agent that was there no aid to construction, that the Board had subsequently been informed there is no aid to construction.

MS. CAILLE: I'm not aware of any correspondence, no.

MR. QUINN: How would your agents then know that there was no aid to construction required, that's what was in -- that's what Union informed the Board of?

MS. CAILLE: We would have advised them orally that the dollar amount had been reduced on a per acre basis, and at that point in time there was just the term contract required, rather than any -- rather than the $2 million that you had referenced earlier being needed to be collected before the project could proceed.

MR. QUINN: Without any written correspondence to these agents, how would Union ensure that the Board's ultimate order was carried out, in fact, that there was an understanding that there was no aid to construction required for the project?

MS. CAILLE: If the order had not changed, we would have been required to collect from a grouping of customers the amount of $2 million in advance prior to them being able to contract with any customers for a long-term.

Verbally we were -- we had told the agents to say the $2 million in advance of construction payment was not required, and they could contract with customers in the amount of the 18,000 or 9,000 an acre solely without that additional financial commitment.

MR. QUINN: So all this communication was verbal.

MS. CAILLE: To the best of my knowledge, yes.

MR. HOCKIN: If it's helpful, it's only two or three people. It would be part of a discussion topic about what happens next.

MS. CAILLE: Actually, at the time it was one. There was only one employee who was servicing this entire market. We now have three, but at the time of this proceeding being approved there was one greenhouse account manager.

MR. QUINN: Okay. Well, clearly we're asking these questions because there was some considerable concern about being asked for aid to construction from the growers, and that subsequently led to a letter from the growers' association, OGVG, to Union asking about this issue of aid to construction. And in your evidence -- and I ask you to turn it up -- there was Union's letter of July 18th, which is found in tab 6, appendix E -- again, there's no page numbers, so I apologize, I can't give you a specific page.

MR. SMITH: Apologies, Mr. Quinn, which date?

MR. QUINN: July 18th. Thank you.

So because of the number of concerns that were raised about the issue of this aid to construction were brought to the growers, the growers sought clarification from Union, and that's the context of this letter -- sorry, the growers' letter. Actually, it might help if I can ask Union's assistant to just go to the previous pages, which actually, it might help if I can ask Union's assistant to just go to the previous pages, which actually include the letter. It's in evidence.

So I want folks to know that the growers association sent a letter June 28 to Union to try to get clarification. And after the first preamble, the first page, the second page listed a number of questions that pertain to how the contracting practices were going on and what the implications were for the growers so that there would be consistency, as -- we understand sometimes verbally things get changed.

So the letter went on June 28th to Union and on July 18th, on the next page, Union provides its response. And if you flip one more page, page 2 of that response, reading from the second paragraph:

"As with all project expansions, to ensure all project costs are recovered from customers who are requesting natural gas service, customers may be required to provide contributions in aid of construction, also called aid to construction. An aid to construct is required when the projected natural gas revenues are less than the projected costs of the life of the facility."

Mr. Hockin has spoken to that. Carrying forward, it says:

"In the case of the Leamington expansion project, there was an aid to construction required to maintain the economic feasibility for the project."

Would you take it, subject to check, that this letter was authored – and I think it was authored by you -- some three months after the Board's approval in the leave-to-construct?

MS. CAILLE: Yes. That's correct. We subsequently, after receiving the letter -- or writing the letter, met with agents from OGVG, as well as yourself in person on the 31st of July. So if you go forward, there is a reply letter, again, on August the 8th, where we met for several hours in person and clarified the language in the letter that you just communicated, and restated, to clarify in writing on our August 8th letter, what we had said to you, as well as three members from OGVG in person at our meeting in London.

MR. QUINN: Since communications with your agents was all verbal, is it possible that prior to all this clarification the customers were contracted with and they were under the understanding there was an aid to construction?

MS. CAILLE: I don't know.

MR. QUINN: Is it possible?

MR. HOCKIN: Is your question to speculate what was in the customer's mind as to what they thought was on the contract? I don't think we can comment on that if that's what...

MR. QUINN: No, Mr. Hockin, to be clear, the customers were concerned. They were told there was an aid to construction. The growers association tried to get confirmation or understanding of that, and were told initially by Union, yes, there was.

So in my view, the simple logic of this is the customers were told there was an aid to construction, and subsequently the growers association sought confirmation of the same thing they were told. That was the flow of events, but I think from there I can move on.

The customers were required, as a result of what they understood to be an aid to construction -- and in fact, Mr. Smith was good enough to provide us with an actual contract from the project, so if we could turn up K1.7, on page 4 of 4, section 8, we don't have a date, so we don't know when this contract was put in front of the customer.

But understanding that this contract, I assume, is a reasonable representation of what was actually entered into, under section 8 it has aid of amount payment schedule and it starts out with:

"Customer will be required to pay to Union a contribution in the aid of construction."

So, Mr. Hockin, you challenged whether --

MR. SMITH: Sorry, if –- well, I'll have some submissions about this, because it will be necessary for us to file this contract in unredacted form if my friend continues on this point.

MR. QUINN: I'm just pointing out Mr. Hockin was concerned that I might be surmising with customers, thinking I'm saying this is a contract was put in front of customers, as an example of customers, but I'll move on so that we don't --

MR. HOCKIN: Without going into the detail, I can tell you that this is a shell, and it will either have a number or zero in there, depending upon anybody's individual circumstances. That's the reason why there's a section in there.

MR. QUINN: So in the time I have left, I wanted to -–

MS. CAILLE: So in a hypothetical case, that could stay zero. Sorry.

MS. CONBOY: No, it's just that somebody else was talking, so the court reporter wasn't able to get that down.

In the hypothetical situation?

MS. CAILLE: That amount, although it says there's an aid to construction, could be zero, not necessarily an amount.

MS. CONBOY: Yes. We understood that from Mr. Hockin.

MR. QUINN: So as a result of this, as a result of a contribution by the customer, the customer is required to establish a minimum annual volume. And you went through it; we don't have to go through the detail of the years versus the minimum annual volume, but something was said recently: The customers don't speak metres cubed. And I agree with that, having spoken with some of them.

Would Union have provided to the customers the knowledge of the range of heating degree days and the impact on volume consumption based upon expected utilization for them to establish a minimum annual volume?

MS. CAILLE: No.

MR. QUINN: Thank you. So the customer is required to establish this contract not only for year 1, but potentially for year 3 and an increasing volume that they may want in a subsequent year that's on the record so far.

Union understands that these growers had a significant cost increase for their energy this last year? I think we can take that as a given. Gas prices went up this last winter?

MS. CAILLE: And it was a colder than normal winter, yes.

MR. QUINN: That impacted gas consumption from heat-sensitive customers?

My point is unanticipated, the coldest winter in 37 years, as has been on the record here in this -- sorry, in this room -- I want to be clear about it.

MS. CONBOY: Easy now.

MR. QUINN: yes. There is an impact on customers, that some plans that a customer may have had for expansion three years down the road may be impacted by unanticipated impacts of input costs, such as energy. Would you agree with me that could affect their business?

MS. CAILLE: It's possible. Customers could also have chosen to not plant during the winter season and not need to burn commodity. They could have chosen to switch to an alternate fuel.

Individual businesses make decisions based on their own individual circumstances. So it's possible, but there are other scenarios that are possible as well.

MR. QUINN: I won't engage in more speculation, then.

If a customer goes out of business, they are still required to pay Union the minimum annual volumes; is that correct?

MS. CAILLE: Yes, that's correct. Just as is such with any customer that's under a long-term contract with us, whether they're a greenhouse grower or another business operation.

MR. QUINN: So you realize if somebody has decided because of potential economic impact or potential changes that they have for themselves that they aren't making money in the greenhouse business, you could change the customer status from going out of business to going bankrupt?

MR. HOCKIN: That's a contract risk when you enter into the contract, yes.

MR. QUINN: Thank you. I think Mr. Buonaguro hit on that point, so I'm not going to go back there. I want to get clarification on a couple of things that were said earlier. Mr. Wallace, you haven't had a lot of airtime, so I'm just going to come back to you for a moment.

At the outset -- you need not turn up the map, I don't believe, because I think you know this off the top of your head -- is it true that the reinforcement line that serves Leamington station would also have a positive impact on pressures in the Kingsville system?

MS. CONBOY: The rest of us don't have the pipeline on the top of their head, so perhaps we could bring the map up, please.

MR. QUINN: Sorry, Ms. Conboy, I didn't want to engage in a lot of stuff that may have been better in a technical conference. I was just trying to establish that the reinforcement that occurs on the Leamington line would serve other customers beyond, necessarily, Leamington and these specific growers.

MS. CONBOY: So it's nothing new than what we heard at the outset of the cross-examination.

MR. QUINN: No. I'm sorry, I was trying to move things along, given the time.

MS. CONBOY: Yes.

MR. WALLACE: So the reinforcement that occurred on the Leamington line created a system capacity which we allocated to the greenhouse market, fully allocated to the greenhouse market, to service those customers.

MR. QUINN: And it would have a positive impact on your ability to serve the Kingsville market, because gas that flows through the pipeline has a system impact on Kingsville also?

MR. WALLACE: Any reinforcement has an overall system impact. The impact of this reinforcement was to increase the capacity of the transmission system servicing the Leamington and Kingsville area.

I apologize for my voice.

MR. QUINN: No, I understand, sir. It was unclear, so I think the answer is it would have an impact on the Kingsville market also?

MR. WALLACE: It creates capacity in the Leamington and Kingsville area, which is in evidence and which is servicing the greenhouse market.

MR. QUINN: I want to make sure that's clear, sir. I appreciate your attempts, given your throat, so I'll go to another area.

There was a statement made a couple of times about the options that were offered to customers.

Were customers offered the opportunity to go to a term that was greater than ten years to reduce -- optimized to reduce their MAV?

MS. CAILLE: No, they were not. It was identified as a minimum of one or a maximum of ten years.

MR. QUINN: Why would that be? If somebody has been in the greenhouse operation for 20 years already and would be willing to enter into a 15- or 20-year contract, why wouldn't they be afforded the opportunity to extend their term of your contract?

MR. HOCKIN: Your question was, was it done, and the answer is, no, it wasn't done. Could it be done? Yes, it could be done. It would be untypical, atypical, but as I mentioned before, one of the examples that we had where we have gone more than ten years would be an OPA contract, a power producer contract, so with appropriate credit requirements and things of that nature, then we could look at beyond ten years if the customer wanted to do that.

But as mentioned, the average term is seven years. So there may be some people who want ten, but there would be few, I would expect.

MR. QUINN: Well, the average is based upon a limited maximum ten. To the extent that one customer chose 20, that -- an average could have gone up, so it's just math. But I think I would go on to the unitized cost. You used that expression, so I'll use it, Mr. Hockin, to make sure we're clear. In essence, you went to the customers to cover the unitized cost of this project by way of either an upfront payment or a ten-year contract that would give you recovery of that upfront cost. Do I have that correct?

MR. HOCKIN: In the words of your colleague, it was more of an -- on an individual basis, it's a bunch of individual projects, where you take a look at the revenue for that customer specifically and all the costs associated with the customer. The costs are site-specific and a pro rata share of this.

MR. QUINN: To the extent then the accumulation of the total project contributions -- not site-specific. Mr. Buonaguro gave you the figure of just over $8 million -- you would have had the total investment of that -- to the extent that those payments were made, you would have the total investment compensated for at the outset of the project. Would that be correct?

MR. HOCKIN: Yes. If your question is if we invested 8 million and we allocated to a number of customers and a number of customers all paid that amount of money upfront, yes, it would be covered. That's not what happened, and in fact most -- about a third, as I remember off the top of my head, of those customers come on in year two and three, so it's not all upfront either.

MR. QUINN: I understand, but to the extent they entered into a contract to secure the three-year supply capacity, they would have also had to have had financial assurances to you that they would be good for the minimum annual volume payments. Is that not correct?

MR. HOCKIN: Can you try us one more time? I don't know that we caught that.

MR. QUINN: In any contract situation they would have had to -- entered into some kind of financial assurances with Union that would make sure Union's recoverability of the expected benefits of that contract.

MS. CAILLE: So the word "financial assurances" is a new term. They enter into the long-term contractual arrangement, committing to consume the volumes under their MAV, so at the end of all of the contracts that are executed against this section of pipeline, then, yes, we would have recovered the revenues, but we need to -- that underpin that pipeline being built, but it would be once the contracts have come to term.

MR. QUINN: I'm speaking of financial assurances such as a financial letter of credit, which is different from the expected consumptions in year ten.

So Mr. Hockin, I saw you nodding. Would you agree with me that they're -- to establish the contract the customer would have to meet the specific financial assurances of Union Gas?

MR. HOCKIN: I would say yes. At any point in time any contract that Union is going to enter into, Union is going to review its credit with that particular customer. If the customer does not meet the credit requirements associated with the contract, there would be some credit requirements in the way of whatever those credit processes are. But it's not related to the project. It's related to the request to enter into a contract.

MR. QUINN: So what financial risk is Union undertaking in this project?

MR. HOCKIN: In what respect, sir?

MR. QUINN: You're making an investment. Your investments are covered either through upfront payments or contracts that are secured by appropriate financial assurances. What is Union's financial risk?

MR. HOCKIN: We've done the best to estimate the original capital costs of the project. The project is not in rate base and won't be in rate base until 2019, so we're at risk associated with the investment costs associated with that, and then the rest of it is just the typical utility risk that goes along with any investment.

MR. QUINN: So to summarize, you're saying there's a business risk in meeting your estimate, number one, meeting your cost estimate for the project. That's one of your business risks you've identified, correct?

MR. HOCKIN: Sure.

MR. QUINN: Okay. And the second one is what -- is there not zero financial risk because you've contracted in the way you have?

MR. HOCKIN: I don't know that.

MR. QUINN: Okay. Well, I think that we'll leave the rest for argument.

MR. HOCKIN: For clarity, not all those customers are contracted. We anticipate to have all those contracted over a period of time, and we would expect those to do so, but at the present time as of today they're not all contracted. About 80 percent of it is.

MR. QUINN: But they can't get service, neither now or -- nor could they secure service three years from now if they haven't entered a contract. Is that not correct?

MR. HOCKIN: That's correct, but we've already made the investment.

MR. QUINN: And they've already signed the contract.

MR. HOCKIN: No, they haven't.

MR. QUINN: Okay. Sorry, to be clear, they need to sign the contract if the service -- and I think, going -- I don't have the transcript in front of me, but I think Ms. Caille said that you have a waiting list if some people don't sign up for their capacity; is that correct?

MS. CAILLE: That's correct.

MR. QUINN: Okay.

MS. CAILLE: We're approaching customers on a first-come, first-serve basis. So those who request first, we approach and give them the opportunity to get service, and if they decide they do not want to, we go to the next person in line.

MR. QUINN: Okay. Thank you very much. Those are my questions.

MS. CONBOY: Thank you.

Mr. Shepherd? I have you down here for 15 minutes.

## Cross-Examination by Mr. Shepherd:

MR. SHEPHERD: I should be able to stay within that. I have -- we have a slightly different perspective, because Schools generally don't have a lot of greenhouses. They have some. But we are usually your contract customers.

And so I want to ask just a couple of questions about how the ratepayer is protected in these contract discussions. You talk about these contracts as if they're negotiated, where you sit down with the customer, you negotiate the contract. But they don't actually have any rights there, do they? You can tell them to go away, and they can't do anything about it, can they?

MS. CAILLE: I wouldn't phrase it that way, so I would have agreed with you when you said they're negotiated. We present the customer with the -- what we started with as the shell, speaking earlier, Exhibit -- pardon me -- K16 -- 1.6, and discuss with the customer what their volume will be, what they want to anticipate to use, in order to determine what the contract parameters would be.

So there are discussions back and forth around the parameters in order to negotiate the contract terms. We don't impose --

MR. SHEPHERD: Okay. Well -- so let me ask a couple of --

MS. CAILLE: -- the volume --

MR. SHEPHERD: -- questions about that. First of all, you talk about K1.6 as a shell, but I -- and I heard that K1.7 is also a shell, but they're different, aren't they?

MS. CAILLE: K1.7 --

MR. SHEPHERD: Two different shells.

MS. CAILLE: -- is an executed actual contract that we filed as an exhibit, so --

MR. SHEPHERD: When Mr. Buonaguro -- or, sorry, when Mr. Quinn, I think it was, or maybe Mr. Buonaguro, asked about the aid-to-construct term in this contract, K1.7, he was told, well, it's a shell. Well, K1.6 doesn't have an aid to construct in it, so do you have different shells?

MS. CAILLE: So -- hard to tell when that light is on or not. Sorry about that. 1.6 -- K1.6 is the shell. The shell that we were referring to when Mr. Buonaguro talked about K1.7 is the contract that has been prepared specifically around the Leamington expansion, so the customers under that project that was installed would have similar wording, but the parameters of what their minimum annual volume or their term would be different as negotiated with each individual customer.

MR. SHEPHERD: And Union just decided unilaterally, that nobody approved this new shell, right? You just decided this is what we want to do, right?

MS. CAILLE: Union establishes the contract that we are putting out in front of the customer.

MR. SHEPHERD: And there's no regulatory protection for this. You can put whatever you want in it, right?

MR. SMITH: I'm not sure what my friend means by that, if he's asking the witness –- if my friend is asking the witness a legal question as to what regulatory protection customers may have, I don't think it's an appropriate fact question.

MS. CONBOY: Mr. Shepherd, perhaps you can rephrase your question.

MR. SHEPHERD: Are either K1.6 or K1.7 Board-approved documents?

MR. HOCKIN: Not that I'm aware of.

MR. SHEPHERD: In fact, you in fact did make some determinations internally as to what you were going to put in K1.7 when you started using it in Leamington, right?

MS. CAILLE: Yes. We would review the contract as we were putting them out for expansion projects that require facilities.

MR. SHEPHERD: So you decided, for example: Well, we better put aid to construction in here, but then subsequently your approval was based on no aids to construction, right? You didn't change the contract?

MS. CAILLE: Again, I don't know that I would phrase it in that way. As we mentioned earlier, the customer has a choice between selecting a term under a minimum annual volume, or paying an amount in advance upfront.

So if the customer chose, rather than --

MR. SHEPHERD: Can I stop you, because I want to ask a question? Where is this choice? It's your -- you decide to give them the choice, right?

MS. CAILLE: We present the customer with the options and let them select what they would like to do for their business arrangement.

So as mentioned earlier, one of the customers chose, rather than entering into a multi-year agreement, to pay the money in advance and only take a year-to-year renewal.

The remainder of all of the customers selected a minimum annual volume and a term, and those terms ranged from anywhere from that one-year customer up to 10 years, and on average ended up at a seven-year term. But that was based on the volume that they wanted to commit to burn on an annual basis, which that then determines how many years they're wanting to commit to using natural gas at that capacity.

MR. SHEPHERD: You didn't have to give them this choice, right? You decided to give them this choice, but you could have said: You know what? Everybody's got to pay X amount upfront? You could have done that, right?

MS. CAILLE: We could have put that as an alternative in the marketplace. However, we would have then needed to collect all of that money in advance of constructing the pipeline in order for it to be built.

MR. SHEPHERD: The point is the customers have no leverage there. The customers can't say: No, we don't want to pay in advance. Because you can say: Well, sorry, it's our contract. You want service? This is what you have to sign, right?

MS. CAILLE: No. I wouldn't agree that the customers would say: No, I don't have to pay in advance, because in fact by selecting a term contract that's exactly what they're doing, is not paying in advance.

MR. SHEPHERD: Well, no, I guess, again, you're begging the question. You're assuming that you're giving them the choice; you don't have to, right? You don't have to give them that choice? You can say to all the greenhouse growers: Look, you're not going to get in this queue to use this pipe unless you contract for 10 years. That's the way we're going to do it.

And they would have no right to say otherwise, would they? They could simply say: We'll take the gas, or not?

MS. CAILLE: Again, that's not how I would state it, because they're not required to select a 10-year term.

MR. SHEPHERD: But you could require them to select a 10-year term, couldn't you? They have no rights there?

MS. CAILLE: We did not. We do not impose that on the customer.

MR. SHEPHERD: My concern here is a different one from the greenhouse growers.

My concern here is: What are the rights of the customer? And I hear you saying throughout all your evidence, I hear you saying: The customer doesn't have any rights. We decide what they contract. We can give them choices if we want, but we don't have to.

Is that correct?

MS. CAILLE: Again, I would not phrase it that the customer does not have any rights.

The customer has a choice between using natural gas or propane or fuel oil, whichever they choose. When they approach us to use natural gas as a service, we were treating all the customers in this area in the same fashion, in an equitable manner, and allowing them to decide whether they wanted to do an upfront payment or choose a term up to 10 years.

MR. SHEPHERD: How did you --

MS. CAILLE: In order to obtain capacity on a pipeline that was built to service a capacity-constrained area within our system, where there was need from the marketplace to build a pipe to serve those customers.

That pine line is primarily -- and we did the math, we looked at how many customers have attached over the last year in relation to greenhouse growers. And I wrote it down; it's a quarter of a percent of the capacity went to homes or other businesses. So of that 509 acres that was built for the greenhouse growers, only the equivalent of 1.5 acres was consumed by anybody else.

It was -- it was built because they were asking us to provide more capacity to that area.

MR. SHEPHERD: Actually, it was built because you had a capacity constraint and you couldn't serve all your customers in that area; isn't that right? You had customers who wanted service and you didn't have enough capacity? You had to build more; isn't that right?

MS. CAILLE: We did not have -- there was no more capacity in that area without building this incremental pipeline.

MR. SHEPHERD: So all the customers in that area need this additional capacity, right? Some of them were already being served and some of them you couldn't serve yet, but they're still all customers, aren't they?

Why didn't you go to all the other M5A customers that you have in that area and say: By the way, you all have to contract for a longer period of time too, because we're building this new capacity? Why was it only the greenhouse growers?

MS. CAILLE: We did in the expression of interest identify that any customer who was of contract load would need to contribute to that pipeline. So we put an equivalent dollar per metre cubed for -- say, a large factory or processing plant that would have been a contract load, they would have contributed in the same way.

MR. SHEPHERD: Any new customer?

MS. CAILLE: Anybody needing incremental capacity, so it could have been an existing customer that needed to increase their load as well, would have been treated the same way.

Because geographically there's a large concentration of growers, it happened that all of the customers taking the capacity that wanted it were, I will say, greenhouse growers, peppers, cucumbers, tomatoes, different things --

MR. SHEPHERD: That's not what I'm after here. I'm after the difference between existing and new. The new customers are still legitimately customers, right? But the existing customers don't have to cover any of this long-term commitment, do they?

MS. CAILLE: If you're an existing customer that is increasing your capacity, you would -- you would be also contributing to the load if you're a contract rate customer taking capacity off of that pipeline system.

MR. SHEPHERD: So what you've done is created sort of two categories of M5A customers in that area? The ones that aren't on the system yet, they have to pay for the new capacity; the ones that are on the system already that don't need any more capacity, they get to have annual contracts, which they can terminate on three months' notice, don't they? And in fact, almost every one does?

MS. CAILLE: Because they were attached to the system prior, and would have entered into a contractual arrangement at the time.

It could be -– again, I'll use a hypothetical because I don't have a real customer example, but had we needed to build pipe facilities down the road to attach a customer before, we would have run the economics that Mr. Hockin referred to earlier. That would have taken into account whatever pipe they needed and their distribution facilities, and they may also have needed to going into a multi-year contract with a term and an MAV, because it's the process we use for every customer that we attach on a contract basis, whether you're a factory or a greenhouse grower.

The only -- the substantive difference, I guess, in this case is it's a collection of growers at the same time, rather than an individual customer.

MR. SHEPHERD: Here's the thing I don't understand. Here's what I'm trying to get my head around, is you talk about this as if these are sort of a set of rules, and so everybody is protected by the same set of rules.

But in fact, it's entirely within your discretion as to which rules you apply where. I'll give you an example, and tell me whether this is right, technically correct. I know you wouldn't do it, but just tell me whether this example is possible.

Thames Valley is one of my district school boards. They serve London, among others. They have 198 schools in London. Let's say their contract demand is 7 million cubed a year which is probably in the range and they have a one year contract. Most of your customers in these classes have one year contracts, right?

MS. CAILLE: A large number of customers do, but those who require new facilities often have multi-year.

MR. SHEPHERD: Understood, but the vast majority of your customers right this minute are on one-year contracts, right?

MS. CAILLE: Subject to check, I would say that's accurate.

MR. SHEPHERD: Okay. And so Thames Valley comes to the end of their one year, and they say, You know what? Our 7 million, we have this big conservation program over the next ten years, so we want to cut it back, and we want to reduce our minimum annual volume. They can't go anywhere else, right? They have to use gas. We want to reduce it over the next ten years. Each year as we come up for renewal we're going to reduce it a little bit. You are allowed to say to them -- tell me whether this is right. You're allowed to say to them under the current rules, you're allowed to say to them, You know what? We can't do that, because we have a bunch of reinforcement to do around London which will affect all users in London, so we can, you can say to them, We're only going to accept -- we're only going to contract with you if you stick with the 7 million. Right?

MR. HOCKIN: No.

MR. SHEPHERD: Okay. What stops you from doing that?

MR. HOCKIN: Reinforcements done for an aggregate area in the example you've painted, the London area, are not attributed to individual customers.

MR. SHEPHERD: Or the Leamington area?

MR. HOCKIN: In the case of the Leamington area, all the new capacity was being used to serve identifiable specific loads. It's the equivalent of one customer taking 500 acres because they're identifiable. In your example that you presented you said, I have a school somewhere in London, and somewhere on an upstream pipeline to feed London there's a reinforcement. Those are handled in a completely different manner.

MR. SHEPHERD: Well, the fact that they are handled in a different way doesn't mean that you couldn't say, Sorry, we need this load. We need you to commit to the 7 million. You're allowed to say that, right? Nobody can stop you.

MR. HOCKIN: We're getting into an argument as to what we could do or would do. I can speak to the principle. I can speak to the way we operate and the way we do the economics and the way we deal with customers in a very general manner. You're presenting a scenario which I don't agree with, and I don't know how better to respond.

MR. SHEPHERD: Okay. Those are all my questions. Thank you.

MS. CONBOY: Thank you very much.

We're going to take a break for about 15 minutes. We'll be back at 20 after 3:00.

### --- Recess at 3:03 p.m.

### --- On resuming at 3:25 p.m.

MS. CONBOY: Before we begin with Board Staff's cross-examination -- although I do understand there was a mistake in the hearing schedule, and you do, Mr. Thompson, have five or 10 minutes of questioning?

MR. THOMPSON: Yes, that's correct, Madam Chair. I sent in an estimate for Union's witness panels, but I didn't segregate it. And so I have some leftover time, but I would be about 10 minutes.

MS. CONBOY: Before we go any further, Mr. Buonaguro, I'm going to ask you again, because I'm still not or the Panel is still not clear. What relief are you asking the Board to make on this issue?

MR. BUONAGURO: Subject to having to discuss the issues with the clients and get approval and making final submissions now, having had the opportunity to do an oral hearing on some of this, generally speaking there's sort of a primary issue, which is that we have a number of customers who are signed up on contracts which they don't think are necessarily fair. So we're probably going to be making submission as to how those contracts should be augmented by the Board, or that service should be extended to these customers on new terms.

There's a general issue with respect to the connection between what happens at the leave-to-construct in terms of economic valuation and what's presented to the Board, and then how that translates when people are being actually connected to a service, which we may make submissions on.

And then as I tried to point out at the end of my submission, the company's on the cusp of doing essentially the same process in terms of, presumably, applying to the Board for leave-to-construct for new facilities in the exact same area, dealing with the exact same set of customers, and then having to go out and contract with those customers.

And whatever else happens, we want to be sure that we know exactly what the parameters will be, because clearly there was confusion between what Union believed that the customers thought was going to happen when they were contracting after the leave-to-construct, or the leave-to-construct proceedings were put in place.

So we're close to having to go through the whole process again, and we want some certainty with respect to what the parameters are in terms of the interaction between Union and the customer.

MS. CONBOY: Thank you. Mr. Thompson, please go ahead.

## Cross-Examination by Mr. Thompson:

MR. THOMPSON: Thank you, Madam Chair. Panel, I'm concerned with the generic implications of what's taking place here, and I have a few what I think are primarily factual questions to understand this.

Can you tell me whether this line has now been constructed and is in service?

MS. CAILLE: Yes, it is.

MR. THOMPSON: Okay. Now, can we agree that contributions in aid of construction are the subject matter of a Board policy?

MS. HOCKIN: That's a broad question. I don't know.

MR. THOMPSON: You mentioned EBO 188, I think, at some point in either your prefiled or in your testimony today; that is the policy that I thought you were relying on.

MR. HOCKIN: EBO 188 speaks to a number of things, including aid to construct. EBO 134 speaks to aid to construct. And it's an operating practice that all utilities have had for dozens of years, but certainly EBO 188 does address aid to construct, in a manner.

MR. THOMPSON: All right. So does Union agree that it could only collect a contribution in aid of construction in accordance with Board policy?

MR. HOCKIN: I don't know, again, Mr. Thompson. We collect aid to construct in accordance with our general practices, which are in accordance with 188.

I don't know whether or not that helps, or whether or not that is too narrow or too broad.

MR. THOMPSON: Does Union regard an aid to construct as a rate?

MR. HOCKIN: No.

MR. THOMPSON: At the evidence at page 6 in your prefiled here -- this is Exhibit A, tab 6, page 6 -- it has a section entitled "Aid to Construct." And then it's described as:

"An aid to construct is an incremental cash payment, typically in advance, in addition to the rates for service."

Is that how Union defines an aid to construct? In other words, there's no purpose stated in your definition of it?

MR. HOCKIN: The sentence wasn't intended to state purpose; it was more a clarification that the aid is not a rate per se.

MR. THOMPSON: All right. Well, that may be arguable. And whether you need Board approval for it, again, may be arguable.

But am I correct, when I look at page 5, that you regard the so-called minimum annual volume there described and the aid to construct as equivalents?

MR. HOCKIN: No.

MR. THOMPSON: I thought you said a customer could either do the MAV or provide an aid to construct, which suggested to me they're equivalents. What am I missing?

MR. HOCKIN: We need to back up one step to make sure we are start with the proper frame of reference.

With the discount cash flow, we're comparing revenue to cost, net present value of both. If the cost is greater than the revenue, there's a shortfall, and it needs to be bridged in some manner, typically with an aid.

In the case where you can change the revenue parameters, which is commit to a revenue stream for a period longer -- so that was the example we talked about where it was a five-year term and someone said: Can I contract for a seven-year term? -- we would have more revenue provided customers committed to that revenue stream, and that would eliminate the aid to construct.

There is a possibility, given the choice the customers are making, that there could be both an MAV, a minimum volume that the customer is committing to, and an aid. And I can give you an example of that.

We mentioned that the average term is seven years. It's possible that a customer could come forward and say: I don't want to contract more than five years, and do you still have an aid? And we could say: Well, if you contract for seven years, it would eliminate, and the contract customer may say: I prefer only five; I will pay aid for the difference. That's a possibility.

And as we've mentioned, no one has paid an aid associated with this project, other than the single customer.

MR. THOMPSON: Taking that single customer as an example, he really hasn't paid an aid to construct. What he has done is paid an MAV based on a one-year contract, right?

MR. HOCKIN: No.

MR. THOMPSON: How could you extract from that customer an aid to construct when you represented to the Board that you didn't need aids to construct?

MR. HOCKIN: What we represented to the Board is there was no need for aid to construct in aggregate for the project.

MR. THOMPSON: Right. Yet you still go out to individual customers and say: You need to give us an aid to construct. Isn't that inconsistent?

MR. HOCKIN: No, it is not.

MR. THOMPSON: Okay. Let me move on.

Am I correct that the MAV is derived from a dollar amount? In other words, if someone commits to two years, you determine a dollar shortfall based on the 10-year revenue stream and then you convert that to volume, right? Is that right?

MR. HOCKIN: Again, the entire intent of this is to match the revenue to the original investment that was derived, and the assumptions for that.

If you say the MAV is derived from the revenue, the revenue is derived as volumes times price, the customer's rates times the volume that they're committing to, so I guess you could come to a mathematical relationship that says as you have said.

But that's -- it is an outcome. It is not a -- it's not driving the initial part of the calculation, if you will.

MR. THOMPSON: But for those who take a short term, the MAV could be substantially more than they would actually use?

MR. HOCKIN: No.

MR. THOMPSON: No?

MR. HOCKIN: I would suggest a rational person would not contract for substantively more than they would use. They would change their parameters to meet their expectations.

MR. THOMPSON: All right. Let me move on.

Would you agree with me that this MAF concept was not presented to the Board on the leave-to-construct application?

MR. HOCKIN: The leave-to-construct application spoke of a ten-year revenue term, and the MAV is a method to match the revenue.

MR. THOMPSON: I'm sorry, was it presented to the --

MR. HOCKIN: No, it was not.

MR. THOMPSON: Thank you. And do you agree that an equivalent to the MAV approach would be a minimum contract term of ten years?

MR. HOCKIN: No.

MR. THOMPSON: No, why not?

MS. CAILLE: Because it's a combina -- for the pipeline capacity, the $8.2 million for this particular pipeline was a combination of the term and the volume needed and the revenues in order to recover the costs that were incurred for that pipeline. So if it was just a term irrespective of the volumes attached to those individual customers, it may not provide sufficient recovery for the cost of the expansion.

MR. THOMPSON: All right. So this is a client-specific cost analysis that drives this that someone else has discussed with you. Was any consideration given to asking the Board to approve the construction with the condition that customers who take the service must subscribe for a minimum of ten years?

MR. HOCKIN: No.

MR. THOMPSON: Why not?

MR. HOCKIN: You're asking me to go back in time why we didn't come up with an idea that you've just come up with now. So I don't understand.

MR. THOMPSON: Union contracts with TransCanada Pipelines. Union has contracts -- has transportation contracts with its own customers, and they often prescribe a minimum term as a condition. That's why I'm asking, was it given any thought in this case?

MR. HOCKIN: No. And as you probably well know, I would doubt that there would be very many contracts in the distribution business that are set up the way the TransCanada system is. They're not ten-year contracts.

Let me just give a clarity example for the circumstance. In your scenario, if we said everyone must have a ten-year term, there would be some contracts where the PI would be -- picking a number -- well over 1, 1.5. And there would be outcry as to why someone needs to contract for ten years when their particular circumstance would only need a contract requirement of five years.

And so doing it on a customer-specific basis with a consistent methodology and allocating out the transmission cost of the pipe is the most reasonable way to approach this.

MR. THOMPSON: Well, in any event, it's not Board-approved, right?

MR. HOCKIN: What is not Board-approved?

MR. THOMPSON: The MAV concept that you have applied. We can agree on that?

MR. HOCKIN: There are certain MAV parameters associated with the rate schedule. To the extent that we have required customers to have a volume in excess of that amount for purposes of matching the revenue, that is not subject to Board review, no.

MR. THOMPSON: The Board has not yet approved it, fair? I would have thought that was obvious, but...

MR. HOCKIN: I don't know that we've ever sought Board approval or anybody else has.

MR. THOMPSON: Okay. Let's leave it at that.

Now, just a couple of other questions about how you came up with the amounts. This is the 9,000 and 18,000 that you've been discussing with others. In the initial application there was -- to the Board, it was presented on the basis that there were, I think, 18 customers who had expressed a willingness to commit and 11 that were forecasted to commit, for a total of 29. Would you take that subject to check?

MS. CAILLE: Yes.

MR. THOMPSON: And in the evidence it was said that the 18 -- this, as I understand it, represented 51 percent of the capacity. Have I got that straight?

MS. CAILLE: That's correct.

MR. THOMPSON: And then when the reply argument came in, there's a schedule attached to Union's reply argument where the number of customers is now up to 39? Have I got that straight?

MS. CAILLE: Subject to check.

MR. THOMPSON: And what percentage of the capacity does that represent?

MS. CAILLE: I don't know that. I don't know that math offhand.

MR. THOMPSON: Is it more than 100 percent?

MS. CAILLE: Again, subject to doing the math, I don't believe so, because it was a change in the distribution of the -- from customers being new firm or interruptible to conversion acres, but it was still the equivalent of 509 acres. So it was a change in the customer mix of who had expressed interest to attach.

MR. THOMPSON: Okay. So -- well, perhaps you could undertake to advise us what percentage of the capacity of the line the 39 customers represents? They are attached to Union's reply argument in the material. It doesn't have a page number on it, but it's Exhibit A, tab 6, appendix C. I think it would be the last page of appendix C. And it's on the screen, excuse me. Can we have an undertaking for the total capacity that that represents?

MR. SMITH: Subject to the Board's direction, we're prepared to do that, although I don't understand the relevance of it, because I don't know what Mr. Thompson's position is. But we can do the work.

MS. CONBOY: That would be good, thank you. Could we --

MR. MILLAR: J1.2.

MR. THOMPSON: Well, the reason I asked, I took the $9,000 for interruptible, I multiplied it by the 103 customers shown here in the first column, gave me about $900,000, and then I took the 84 and the 321, which I understand will be firm -- those are acres. That gave me 406, and I multiply that by the 18,000, and I added the two together, and I got the $8.2 million.

MR. HOCKIN: Yeah, the -- when I was listening to you, Mr. Thompson, you made references to how many customers, and there's a difference between the number of acres and the number of customers, and I'm not familiar with the numbers of customers --

MR. THOMPSON: Well, it's right there on the -- it's on the left-hand side, 39 -- 1 to 39 of the contracts.

MR. HOCKIN: I can confirm for you that if you take the new forecast and you multiply it by 9,000 and 18,000 you will come up to 8.2 million.

MR. THOMPSON: And is that how you derived those numbers? You just took those acres and allocated the 8 million between the firm and the interruptible?

MR. HOCKIN: That is how it was done originally, and that is the -- since there was no change in the number of acres, it comes up to the same math as a result of the update as well, yes.

MR. THOMPSON: I thought there was a change in the numbers.

MR. HOCKIN: There was a change in the -- some of the acres weren't forecasted to be interruptible -- sorry, some forecasts were intended to be new versus conversion.

MR. THOMPSON: Okay. In any event, you derived it from this data, the 9,000 and the 18,000? The acreage data shown on this schedule? Have I got that straight?

MS. CAILLE: Yes.

MR. THOMPSON: Okay. And do I understand correctly that these 39 contracts have either been signed or in the process of being completed?

MS. CAILLE: So the 39 was a mixture of customers who had expressed interest in the pipeline and future forecasted customers. So the original submission to the Board had customers attaching over a three-year period, underpinned by revenues over ten years individually as a placeholder.

So they weren't -- some were identified customers who had expressed interest, and some were customers that would contribute to the pipeline but had not yet executed contracts.

MR. THOMPSON: I understood that. But I'm asking as of today -- I thought I heard you say some are signed and were in the process of negotiating with others that we expect to sign or words to that effect. And my question is, are all 39 contracts here either signed or in the process of being finalized?

MS. CAILLE: Can I answer in a different way? All of the acres that we've identified are in the process, but the numbers of customers would have fluctuated depending on what customers came through in the waiting list and how many required. So I can't speak to if the number is 39. We could determine how many.

But we currently have 419.8 acres already under contracts with customers that have signatures. And then the remaining customers -- the remaining acres available are in discussions with active customers that had expressed interest and were going on a first-come, first-served basis to get capacity.

Some customers have declined. Others have asked for more than they originally wanted. And we're doing them in order of who asked.

MR. THOMPSON: All right. And they're all subject to MAV?

MR. HOCKIN: They're all subject to the same financial test, which may result in an MAV term, yes.

MR. THOMPSON: All right. Now, are you also attaching other loads to this system, like residential loads or other different contract loads?

MR. WALLACE: There are a few. In the last six months, we attached approximately 34 additional customers, mostly residential, but their overall load is insignificant with respect to the capacity created by this project, or the load provided by the greenhouse growers.

MR. THOMPSON: Are they subject to an MAV?

MR. HOCKIN: No.

MR. THOMPSON: Why not?

MR. HOCKIN: They are insignificant in the grand scheme of things. And it's a general service rate class, and so there is no contractual arrangements with the general service rate class.

MR. THOMPSON: At the end of the day, if this thing is –- it brings in profitability index of 2 or 3 or 4, does any of this money flow back to the people that have paid for the line?

MR. HOCKIN: I don't know how it brings in a PI index of 2, 3 or 4. The forecast on this number was -- is, and so I will explain this as clearly as I can.

The PI on the revised forecast is 1.18; that is based upon 509 acres, all-consuming for 10 years on an MAV basis.

What we have told you is that on an actual basis. the average MAV is more like seven years, so individual customers are contracting so it's -- they equate out to a PI of 1, individually.

So for an individual revenue for a customer, we have a PI of 1, which might be for seven years. In aggregate, we think it's going to be 1.18 over the 10 years.

If people use gas beyond the 10 years, then that would be a benefit to the rest of the ratepayers. It will all caught up as part of the ratemaking process.

MR. THOMPSON: Thank you. Those are my questions.

MS. CONBOY: Thank you. I just have one quick clarification with respect to Undertaking J1.2. Perhaps, Mr. Millar, you could read out for me how you've written that down?

MR. MILLAR: I'm sorry, could you repeat that, Ms. Conboy? I was just reading my notes --

MS. CONBOY: J1.2, the undertaking that Mr. Thompson was seeking.

MR. MILLAR: J1.2, I only marked it as being given. It was to calculate -- it was about the total volumes represented?

MS. CONBOY: Yeah, I thought it was about what percentage of capacity do the 39 customers represent, or the 39 contracts there. Is that correct, Mr. Thompson?

MR. THOMPSON: I suppose, since these contracts are in flux, it should be what percentage of the capacity do the acres represent, I think would be clearer.

MS. CONBOY: Yeah, because I heard Ms. Caille saying that the 39 wasn't necessarily correct. So maybe it's the 419 and what percentage of capacity that is; is that correct?

MR. WALLACE: I can respond to that now, as opposed to an undertaking. The number of acres shown on this forecast matches the ultimate capacity provided by the facility that we built.

MR. THOMPSON: If I could just follow up, then, why are you selling other capacity to other users? If all of this acreage that you have acquired or are in the midst of acquiring takes up 100 percent of the capacity, what's there to serve these people that you've -- the other people you've attached?

MR. WALLACE: The other people we've attached are relatively -- their demand is relatively insignificant in the grand scheme of things, and can be absorbed by the distribution system. It relates to, I think, less than one and a half acres of demand, in aggregate.

MR. THOMPSON: Thanks.

MS. LONG: So now I have to ask a question of clarification on that, Mr. Wallace.

Do I understand 419.8 acres are currently under contract?

MS. CAILLE: That's correct.

MS. LONG: Of the 509 acres that Mr. Hockin was speaking about in total; is that correct?

MS. CAILLE: The capacity for 509 acres, so absolutely. Correct.

MS. LONG: Thank you.

MS. CONBOY: Mr. Millar?

MR. MILLAR: Thank you, Ms. Conboy.

MR. HOCKIN: Can I ask a clarification? Does that satisfy the undertaking, or do we still have something?

MS. CONBOY: Mr. Thompson?

MR. THOMPSON: I'm satisfied. Thank you.

MS. CONBOY: So we'll strike J1.2 off the list. Thank you, Mr. Hockin.

## Cross-Examination by Mr. Millar:

MR. MILLAR: Good afternoon, panel. I hope to be very quick with you. I wanted to ask a few questions of clarification. I have more experience with aids to construct on the electricity side, and I know it's a little bit different there, though the methodology is the same. But as you're probably aware, on electricity, you don't need a leave-to-construct for distribution-level projects. On the electric side, my understanding is that the vast majority of leave to -– pardon me, aid to constructs happen between the utility and the customer and the Board doesn't necessarily ever even hear about them, because they're for projects that don't require a leave-to-construct.

In the current case before us, of course there was a leave-to-construct, but for my own information and just so we can get a grip on where this might arise in other contexts, for Union Gas, what percentage or what -- what percentage of aids to construct are related to a leave-to-construct application before the Board? Would it be all of them, or would there be some that there was no leave-to-construct?

MR. HOCKIN: I don't know the answer to that. I can tell you my experience, and my impression.

The vast majority -- we contract -- add new customers on a regular basis. So whether or not it's a service ladder or whether or not it's a main extension or something further for an industrial customer, there will always be a calculation and there will be a question as to whether or not there is a bridging mechanism, which is the aid.

That will happen far more times than it would be as a leave-to-construct, because realistically, most of our leaves-to-construct are for main replacements and things of that nature.

MR. MILLAR: And in all cases, you calculate the aid to construct using EBO 188 as the base case? I know it's a bit more complex than that, but it's consistent with EBO 188?

MR. HOCKIN: Correct.

MR. MILLAR: We've heard today about -- at least in this case, you gave some of your customers an option between doing an aid to construct or a minimum annual volume; is that right?

MR. HOCKIN: We're looking for X amount of revenue, so there's -- one method or the other, yes.

MR. MILLAR: That's right. So you gave them the choice, but in either way, it would allow you to recover X amount of money from them to get the PI to 1; is that -- that's the idea?

MR. HOCKIN: Correct.

MR. MILLAR: Is that a common practice? Would that be offered to anyone who had to make an aid to construct?

MR. HOCKIN: I would say yes.

MR. MILLAR: Okay. Thank you.

I have one final question, and really a question for Mr. Smith, and indeed, it may be something he wants --

MS. CONBOY: Ms. Caille, sorry, do you want to clarify?

MS. CAILLE: Yes. I was just going to say on a contract rate customer, it's the practice that we do all of the time. So if you were a general service and a homeowner, you don't have the minimum annual volume that you subscribe to. So in that case, we would run the economics and the customer would pay the aid to construction in advance to attach them.

If you were a factory, a plant, a greenhouse grower and you need to attach, you have the option of signing a long-term contract with the revenues to underpin the costs, or if you do not want to do that, then you can pay the aid to construct.

So it's how we treat all contract rate customers, just for clarity.

MR. MILLAR: Do residential customers ever have to pay an aid to construct, or would this be for a subdivision, something like that?

MR. HOCKIN: Examples where you would see an aid to construct for residential would be a longer main extension. In the case of the residentials, they're already in the forecast for 30 years' worth of revenue, and so you can't extend the, you know, I'll commit to the customer -- the customer committing for a longer revenue stream.

But there will be rural-type circumstances, where somebody is further away from the existing main and there may be an aid associated with that.

MR. MILLAR: Okay. Thank you. Again, my final question, probably more for Mr. Smith, which he may choose to address in argument-in-chief. There had been discussion with Mr. Shepherd and Mr. Thompson about exactly what an aid to construct is, and I heard Mr. Hockin to say Union doesn't consider it a rate, and I think that's actually a commonly held view, certainly not a rate in the sense that it appears on the tariff or something like that.

But as Mr. Smith will be aware, there is a very recent Board decision saying that it does constitute a rate within the meaning of the Ontario Energy Board Act, and my question isn't that, because I think the Board has already made a decision on that.

But my question that I think certainly staff would be assisted in knowing Union's view on, and hopefully the Panel as well, is whether or not the Board has jurisdiction to amend the terms of these types of contracts we're discussing. I think we heard from Mr. Buonaguro his ask is going to be, Board, amend this contract, presumably to either get rid of the MAV or change the MAV or whatever it is. And obviously there may be some question as to whether or not the Board actually has jurisdiction to do that, aside from the fact of whether or not it's appropriate to do that in these circumstances.

So that will doubtless come up in argument, but certainly I think the parties would benefit from hearing Union's view on that before they gave their argument so it wouldn't all come up in reply. So I know that's not really a question for the panel, it's more a request from Mr. Smith, and those are my questions, Madam Chair.

MS. CONBOY: Thank you, Mr. Millar.

Mr. Smith, have you got redirect?

## Re-Examination by Mr. Smith:

MR. SMITH: Just a few questions. They may have been covered already. And I apologize if there is some repetition. I'll try to avoid that.

Mr. Wallace, early on you were asked a question by Mr. Buonaguro about other load being served by the line, and my question is, was the construction of the Leamington line necessary to serve that additional load that you referred to in discussing in your question and answer with Mr. Buonaguro?

MR. WALLACE: Yes, absolutely. Without that line we wouldn't have been able to serve this forecasted growth on the greenhouse market.

MR. SMITH: And if you were to exclude the greenhouse market and just take the ex-greenhouse market, would the line have been necessary?

MR. WALLACE: No.

MR. SMITH: Mr. Hockin, you had an exchange with Mr. Thompson towards the end of the examination, and it was in relation to the minimum annual volumes. Can you explain to me Union's position with respect to the consistency, if any, between the contracting practice of the minimum annual volumes and the DCF calculation in a leave-to-construct application?

MR. HOCKIN: Your question is, explain the differences between what was the minimum annual volume and the DCF at the time of the leave-to-construct application?

MR. SMITH: Well, I'm trying to pick up on Mr. -- it's a bad question. I'm trying to pick up on what I understand the OGVG position to be. Maybe we'll start there.

Mr. Thompson asked you about Union's reply submission and whether or not what you did in relation to the contracting was consistent with Union's reply submission, and you said that it was. And my question is, how so?

MR. HOCKIN: The original application and the reply DCF, both were based upon the same ten-year revenue term. We've talked about it being ten from the time of attachment, ten, 11, or 12, depending upon the time as to when those customers came on. So at the time of doing the application it's not based upon individual customers, it's based upon a revenue horizon for all of that volume together. What happened thereafter is contract discussions with individual customers, and we've gone over that as to, you know, how that transpired, again with the maximum term of revenue of ten years, and some of those being shorter because they weren't necessary in order to meet the PI of 1.

MR. SMITH: Let me ask you about the financial assurances and perhaps maybe ask the question this way. There was a question asked by Mr. Quinn, I believe it was, in relation to the financial assurances. And maybe ask the question this way.

Having regard to the fact that there's a financial assurance provision in K1.7, why is it that Union requires contracts for more than one year?

MR. HOCKIN: The financial assurance, as you've referenced in that shell contract, is a minimum annual volume for X number of years, up to seven years. Is that what we're referring to?

MR. SMITH: Well, it may make sense to just put K1.7 in front of you. But there is a financial -- under section 10 of the contract it refers to credit requirements during the initial term, and it provides that Union may at any time during the initial term request financial assurances to cover the potential financial exposure to Union to the end of the initial term.

And I understood Mr. Quinn's question to be whether Union was still exposed to financial risk. And my question is, is Union still exposed to financial risk, and how so?

MR. HOCKIN: The -- Union is always exposed to the credit risk associated with individual customers. The example that is -- that you could have an MAV over seven years, but you wouldn't necessarily have credit requirements covering all seven years.

So at any point in time, although you have a contract that says there's a minimum bill requirement, an obligation to pay, if you will, there is still the risk associated with the customer's actual ability to pay.

Union's credit requirements are handled through the credit department. They take a look at the credit exposure and will require credit for those customers that are less than creditworthy, if you will.

So there may well be a greenhouse grower operations that are large enough that have no credit arrangements with Union. I don't know the credit circumstance.

MR. SMITH: Those are my questions.

MS. CONBOY: Thank you very much.

Mr. Smith, we had originally figured that you needed about a half an hour in order to prepare your argument in-chief. I think it's fair to say that the cross-examination that we've just had was a little more complex perhaps than you had anticipated. Are you still okay with half an hour, three-quarters of an hour? The option being, as I set out earlier on this morning, that we would hear your argument in-chief in writing.

MR. SMITH: I think I would prefer do it in writing. Normally I would propose to go ahead, and I don't want to be understood that the argument in-chief will be lengthy, because I don't expect it will be in relation to the Kirkwall issues that we heard this morning. I expect the argument to be relatively brief, and the examinations were obviously brief.

Today the cross-examination was perhaps different than -- in some ways than I anticipated, but at the end of the day, and notwithstanding two requests, I really don't know what it is that my friends intend to propose.

I understand generally there may be a proposal to change some of the terms of the contracts, but I don't know which provisions or how, or the rationale for that.

So in a nutshell, I'm sure the argument will be reflective of our argument-in-chief. And it will be no secret to the Board, our view that the underlying contracting was entirely consistent with the DCF calculation and the leave-to-construct application, and that's sort of the end of the story.

But it may be worth putting that down in writing. And I think, if I can respond to Mr. Millar's question that it may make some sense and it may be beneficial to the Board to have some considered thought in relation to that, and that's the one reason I would think I would like the opportunity to do it in writing.

MS. CONBOY: Okay. So we will accept the argument in-chief in writing, and likely have to amend the procedural order in that event. We will try and keep it as compact as we can, recognizing that, I think, you're busy next week.

MR. SMITH: I was just going to put up my hand to that effect, but yes. Thank you.

MS. CONBOY: Okay. So we will certainly take that, you know, as much of that as we can into consideration.

Thank you very much, witness panel. You are excused.

Thank you. And we're done for the day.

### --- Whereupon the hearing adjourned at 4:07 p.m.