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Mr. Crawford Smith
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DELIVERED BY EMAIL

Dear Mr. Smith,

RE: EB-2013-0365 Union Gas Limited

Further to the email exchange with Dwayne Quinn, consultant for OGVG, on Friday June 6, 2014, please find enclosed a summary of the points of argument that OGVG intends to make with respect to the "Leamington Line Project" issue. Having provided these points it is our expectation that Union will fully address them in its Argument in Chief.

Yours very truly,

Michael R. Buonaguro
Encl.

EB-2013-0365
Summary Points in Argument from OGVG
June 9, 2014

OGVG will be requesting that customers who entered into contracts for distribution service from Union Gas Ltd. (Union) that included either an aid to construct or contract terms based on the recognition of an allocation of the total costs of the Leamington Line into the contract be permitted the option of renegotiating their contract absent recognition of any such allocation.

OGVG will be requesting this relief on the basis that, having submitted to the Board in support of its Leave to Construct Application (EB-2012-0431) that no aid to construct in support of the Leamington Line was required from new customers and having obtained approval of the Project on that basis, it was inappropriate for Union to negotiate contracts for distribution service with customers on the basis of the assertion that those customers were responsible for either providing an aid to construct or contracting for a minimum annual volume over a term of years necessary to avoid the requirement of an up front aid to construct payment.

OGVG will be relying in part on the Board's decision in EB-2012-0396 date February 7, 2013 (Natural Resource Gas Limited), which confirms that aids to construct are rates, and as such under the exclusive jurisdiction of the Board.

OGVG will be relying on section 2.1.1 of the Gas Distribution Access Rule (GDAR) in support of the assertion that Union has, in relation to the customers contracting for distribution service ostensibly connected to the Leamington line, failed to provide service in a non-discriminatory manner. In OGVG's submission it is discriminatory to add pre-conditions to the provision of distribution service to customers in relation to the Leamington Line in the form of either an aid to construct or a minimum annual volume in lieu of an aid to construct after having represented to the Board, and having had the Board agree, that no pre-conditions in the form of an aid to construct were required. OGVG further notes that in section 2.2.2 GDAR incorporates by reference the EB 188 Guidelines; insofar as OGVG does not believe that Union's actions conform with the EBO 188 Guidelines OGVG believes Union is non-compliant with GDAR.

OGVG will submit that Union has not acted in a reasonably transparent manner with respect to its proposal to require either an aid to construct or a minimum annual volume in lieu of an aid to construct, having failed to disclose such a mechanism in its Distribution New Business Guidelines. OGVG will rely by analogy on the disclosure requirements in the Storage and Transportation Access Rule as an example of the detail that should be required.

OGVG will also be requesting that, in the case of future expansion projects, particularly ones similar in nature to the Leamington Line (and in consideration of the assertion by Union Gas Ltd. that it is currently considering an additional Leamington expansion) the Board review the methodology for the forecasting of future load and related revenue streams for the purpose of EBO 188 Guidelines related Discounted Cash Flow analyses to ensure a process that not only protects the interests of current customers and Union Gas Limited from the impacts related to the costs of expansions, but also protects the interests of any proposed new customers.

As part of this methodology OGVG will recommend that certain factors be taken into consideration, including:

a) the nature of the project in terms of the accessibility of its related capacity (i.e. whether it provides capacity to the local system as a whole or whether it can only be accessed in limited circumstances);
b) the level of aggregation of load (i.e. the difference between providing capacity for one additional, specific large customer vs. providing capacity to dozens of smaller customers whose loads are being aggregated);
c) the prospects of replacing the load of any initial customers that disconnect with new customers (i.e. in the present case there is a waiting list of customers for the added capacity, which is already fully subscribed); and
d) the sensitivity of the discounted cash flow analysis to variations (i.e. in the present case the analysis provides the required Profitability Index of 1.0 based on only 13 years of revenue, such that projecting revenue out to 20 years as set out in the EBO 188 Guidelines suggests a large tolerance for less then 100% utilization of the new capacity while still providing a 1.0 profitability index within an acceptable time frame)

It appears to OGVG that, currently, when considering expansion projects in the nature of the Leamington Line, Union passes 100% of the risk associated with the project onto the proposed new customers by requiring those customers to guarantee a revenue stream to Union Gas Ltd. in relation to an allocated portion of 100% of the capital costs of the project. In OGVG's respectful submission the EBO 188 Guidelines, which govern the calculation of any necessary aid to construct from new customers, do not contemplate a need from new customers to, in addition, take on 100% of the risk associated with the forecast load underpinning the associated discounted cash flow analysis.

In addition, in this particular instance, Union allocated the capital costs on the basis of acreage, without regard to the actual load requirements for the individual customer. To be clear, OGVG does not agree that it is appropriate to simply and in all cases allocate the full capital costs of a project to a sub group of customers in order to establish a 100% revenue guarantee for Union Gas using minimum annual volumes; however to the extent that the Board may find it appropriate to allocate costs of a project to a sub set of individual customers, OGVG respectfully submits that it is necessary to more precisely allocate any such responsibility to customers based on their actual load requirements.

OGVG points out that Union's own Distribution New Business Guidelines, page 3, set out how a) the amount of aid to construct charged to the customer(s) will be based on the minimum size facility to serve that customer(s); in OGVG's view Union's allocation of capital costs in this instance on the basis of acreage fails to appropriately consider the possible variation in load requirements between customers, and therefore fails to consider whether it may be allocating more capacity to a customer (and therefore more of the new facility) than is needed for service. In OGVG's submission, Union is in essence charging customers who were required to enter into minimum annual volume contracts for amounts beyond their actual load requirements a unit price in excess of the price authorized by the applicable rate schedule, such that those excess charges are unenforceable by Union unless and until the Board approves the additional terms that Union purports to impose on these customers.