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

EB-2013-0365

Written Submissions of
The Association of Power Producers of Ontario ("APPrO")

June 24, 2014

Introduction

The Association of Power Producers of Ontario ("**APPrO**") provides these written submissions in respect of an application by Union Gas Limited ("**Union**") with the Ontario Energy Board (the "**Board**") under section 36 of the *Ontario Energy Board Act, 1988* (the "**Act**") 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.

1. Union is operating under a five year Incentive Rate Mechanism ("**IRM**") for the period 2014 to 2018. The Board approved the multi-year IRM framework pursuant to EB-2013-0202.[1] The application filed by Union was for approval of the rates and other charges for 2014, the first year of the IRM.

2. Union and the intervenors reached a settlement agreement (the "**Settlement**") on all rate related issues.[2] The Board identified three remaining issues to be addressed. These included:

    a) Parkway Delivery Obligation;
    b) Allocation of Kirkwall Metering Costs; and
    c) Leamington Line Project.[3]

3. Union and the intervenors subsequently reached an agreement on the Parkway Delivery Obligation issue. This agreement was reflected in the updated settlement agreement ("**Updated Settlement**") which was filed with the Board.[4]

4. The remaining unsettled issues in this proceeding include the recommendations of Mr. Rosenkranz related to the Kirkwall Metering Costs and certain issues related to the recent development of the Leamington Line Project. APPrO only intends to provide written submissions on the allocation of the Kirkwall Metering Cost issue proposed by Mr. Rosenkranz.

APPrO Summary Position

5. APPrO agrees with Mr. Rosenkranz's Recommendation #2 (as set out below) regarding changing the way the Kirkwall meter and regulator ("**M&R**") and O&M plant costs are allocated. APPrO urges the Board to require Union to implement the proposed cost allocation changes effective January 1, 2015.[5]

Discussion

6. Mr. Rosenkranz's recommendation provides for the following change:

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[1] Approved on October 7, 2013
[2] Settlement Agreement dated April 24, 2014
[3] Procedural Order 3 dated May 12,2014, page 2
[4] Updated Settlement Agreement filed June 3. 2014
[5] Updated Settlement Agreement, page 14

Recommendation 2

> *Allocate Kirkwall and Parkway M&R plant and O&M costs to customer classes based on each class' peak demand for firm deliveries to TCPL or Enbridge, and firm receipts from TCPL or Enbridge, at that meter station.*[6]

Kirkwall Costs

7. In its EB-2011-0210 Decision, the Board recognized that the "use of the Kirkwall Station has substantially changed over the years and there is a clear need to review the allocation of the Kirkwall costs" and directed Union to review the allocation of such costs. Union reviewed the allocation and did not propose any changes to the Kirkwall Station allocation.[7]

8. Union currently allocates the cost of the Kirkwall station based on a distance-weighted demand allocation.[8] Mr. Rosenkranz recommends that the allocator of these costs be changed to the peak demand allocator for firm deliveries.[9] This would result in these costs being recovered based on the level of demand rather than the distance shipped.

9. In support of its position, Union indicated that:

> *Although the Kirkwall Station allows for bidirectional flow, the Kirkwall Metering facilities are required to meet easterly demands on the Dawn-Parkway transmission system on a design day.*[10]

10. Union further notes that the revenue requirement associated with the recent Kirkwall modifications is $0.239 million.[11]

11. Union indicates that the Kirkwall Metering facilities are required to meet easterly demands. While this may have been true in the past, APPrO believes that the shale gas that is being imported via Niagara has fundamentally changed the use of the Kirkwall facilities and the cost allocators for this facility should now reflect this reality. Significant quantities of shale gas are being produced in the Northeast US. The Northeast US is now becoming an exporter of gas to Ontario. Northeast US markets accessible from Niagara are reducing or eliminating their contracts to import gas via Kirkwall.

12. APPrO has come to this conclusion based on the following rationale:

    a) In 2012, Union made a significant investment in facilities at Kirkwall to allow for the receipt of these shale volumes at Kirkwall[12] and to be transported on the Dawn-Parkway system.

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[6] Exhibit K1.3 page 1
[7] Exhibit A Tab 1, page 19
[8] Exhibit A Tab1, page 20
[9] Exhibit K1.3, page 1
[10] Exhibit A Tab1, page 21
[11] Exhibit 9.2 (b)
[12] Exhibit 9.2 (b) and Exhibit A Tab 1, page 20

b) Union acknowledges that these new shale volumes that were required to underpin the new facilities may be transported westerly to Dawn or easterly to Parkway.[13]

c) Union's underlying M12 transportation easterly contracts to Kirkwall have expired and are continuing to expire (or the contracted capacity is being turned back in reverse open seasons). Union has already, or will be repurposing this Dawn-Kirkwall capacity as Dawn-Parkway capacity.[14] Union notes that the 2013/14 Dawn to Kirkwall demand used in rate making is 12.906 10^6m^3 [15] (approximately 486.5 TJ/d). Union further indicates that they expect 304 TJ/d of capacity turnback between 2016 and 2018[16] resulting in 182.5 TJ/d of remaining export M12 contracts (486.5-304 TJ/d). Moreover the volumes of gas that will be received by Union at Kirkwall for delivery at Dawn or Parkway will be 696 TJ/d.[17]

13. The foregoing clearly indicates that the predominant function of the Kirkwall metering and regulating facilities is now for receipt of shale gas from the Northeast US, and that the need for the Kirkwall M&R facilities to meet easterly demands is secondary. The recovery of the Kirkwall M&R costs in each rate class' peak demand for firm receipts or deliveries, as recommended by Mr. Rosenkranz, would best reflect the cost causality of these facilities.

Conclusion

14. APPrO would be pleased to answer any questions that the Board may have regarding our submissions, and thanks the Board for having been granted the opportunity to participate in these proceedings.

[13] Exhibit A Tab 1 page 20
[14] Exhibit A Tab 4, page 24
[15] Exhibit B9.7 Attachment, 1line 35
[16] Exhibit A Tab 4, page 23
[17] Exhibit 9.1 (d)-(e) Table 1, sum of lines 3 and 4