uniongas

A Spectra Energy Company

October 23, 2014

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: EB-2014-0012 – Union Gas Limited – Hagar Liquefaction Service Rate

Pursuant to its letter dated October 20, 2014, please find attached Union Gas Limited's response to the motion filed by Northeast Midstream LP.

Should you have any questions, please contact me at 519-436-5473.

Yours truly,

[original signed by Angela Hale on behalf of]

Karen Hockin
Manager, Regulatory Initiatives

c.c.: Charles Keizer, Torys
Mark Kitchen, Union Gas
EB-2014-0012 Intervenors

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Schedule 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 rates and other charges for an interruptible natural gas liquefaction service.

UNION GAS MOTION RESPONSE

RE MOTION BY NORTHEAST MIDSTREAM

October 23, 2014

1. Union Gas Limited ("Union") filed its Hagar liquefaction service rate application and evidence on May 16, 2014, seeking Board approval for an interruptible rate (Rate L1), effective September 1, 2015. Union then filed an Addendum to its evidence on October 9, 2014 to reflect the following updated information:

   - a change in the proposed effective date from September 1, 2015 to July 1, 2016; and
   - an updated cost estimate (capital and O&M).

2. Northeast Midstream LP ("Northeast") filed a Motion with the Board on October 15, 2014. The Motion requested that the Board refrain from regulating and approving the terms, conditions and rates for the interruptible natural gas liquefaction service requested by Union. This is a response to Northeast's motion.

3. Northeast cited that LNG in the transportation fuel market is a product subject to competition sufficient to protect the public interest and as a result, is "within the provisions of section 29(1) of the Ontario Energy Board Act."

4. In Union's view, the market for LNG as a transportation fuel will be competitive. Union made this same assertion both in its pre-filed evidence and interrogatory responses. In fact, aside from certain assertions, which Union disagrees with and corrects below, Union does not oppose the overall basis of the Motion, particularly in respect of LNG facilities that are greenfield.

5. However, Union's application for a regulated interruptible liquefaction rate is based upon the specific and unique circumstances related to Union's Hagar LNG facility (the "Hagar Facility" or "Hagar"). Because of these unique and specific circumstances, a request for forbearance under Section 29 of the *Ontario Energy Board Act* related to the LNG market in general is premature and should not be heard at this time in this proceeding.

Unique and Specific Circumstances

6. The unique and specific circumstances that give rise to Union's request for a regulated liquefaction rate are as follows:

   (a) The Hagar facility is a regulated asset that is required for system integrity purposes. Union is only offering an interruptible liquefaction service, and the associated LNG, to the extent that there is liquefaction capacity that is excess to utility requirements (Fay Affidavit, Schedule 'A').

   (b) Because of Hagar's importance for system integrity, Union can only offer the liquefaction service on an interruptible basis. The service is effectively controlled by Union's distribution needs should there be a system integrity event (Fay Affidavit, Schedule 'A').

   (c) Due to the constraints on Hagar's LNG volume under the liquefaction service and the interruptible nature of the proposed service, there is a limited supply of LNG available at the Hagar Facility. For this reason, the quality of service is lower than that offered by a greenfield facility. The available marketable LNG at Hagar is estimated to be only 5 percent of the projected volume of the Northeast facility. In Union's view, Hagar will have no material impact on the overall competitiveness of the LNG market. Rather, Hagar is intended to support pilot projects and demonstrations that will help start a more robust and competitive market. Hagar will not be a direct competitor to greenfield LNG facilities (Van Der Paelt Affidavit, Schedule 'C').

7. Northeast also cites the Board's NGEIR proceeding in the Motion under the heading *OEB policy and Precedents for Forbearance* (p.3, Affidavit of J. Stephen Gaske). Because the regulated and unregulated aspects of the liquefaction service provided from the Hagar Facility, any attempt to draw parallels between NGEIR, the subsequent treatment of storage and the Hagar Facility are, in Union's view, without merit. For storage, Union's in-franchise and ex-franchise requirements were easier to determine and ultimately separate. This reality ultimately enabled the Board's decision to forbear from regulating Union's competitive storage services.

8. As a result of the foregoing unique and specific circumstances, Union applied to the Board for approval of (i) a regulated interruptible liquefaction rate and (ii) its proposed cost allocation methodologies in an effort to be as transparent as possible in respect to the use of Hagar beyond its system integrity requirements.

Existing Customers Do Not Underwrite the Service

9. Union wishes to clarify and correct certain statements and assertions made by in the affidavit of J. Stephen Gaske, as filed by Northeast. In particular, there are a number of references claiming Union's existing distribution customers will "underwrite" the proposed service. (lines 10-12, p.2, Affidavit of J. Stephen Gaske). The assertion that existing distribution customers will underwrite, or subsidize, the interruptible liquefaction service is incorrect. To be clear, existing ratepayers will in no way fund the proposed service. As stated in its evidence, during the period prior to rebasing all incremental capital and O&M costs (including variable costs) associated with the provision of the liquefaction service have been allocated to Rate L1 and will be recovered in the proposed liquefaction rate (Tetreault Affidavit, Schedule 'B').

10. In addition, the cost-based interruptible liquefaction rate is intended to make a contribution towards the recovery of existing Hagar liquefaction and storage costs, and Union North distribution costs (Union's Updated Pre-filed Evidence, Exhibit A, Tab 2, p.2). During the IRM term, all revenues associated with the liquefaction service will be subject to earnings sharing. Costs not recovered through Rate L1, will be managed by Union since this period is subject to a final rate order that will not permit (unless otherwise provided for through a deferral or variance account) the recovery of costs from existing ratepayers (Tetreault Affidavit, Schedule 'B').

11. Upon rebasing, the Board will again have the opportunity to fully review the costs associated with the liquefaction service. In addition, as part of any rate base addition associated with the incremental capital cost and the establishment of the rate, the Board will be provided with and will consider a revenue forecast relative to costs to demonstrate economic viability. To the extent that revenue forecast is not accurate, Union bears the risk (Tetreault Affidavit, Schedule 'B').

The Hagar Facility Will Not Be Expanded

12. Union also seeks to address certain assertions made by Northeast in respect to Union's future plans for the Hagar Facility.

13. Specifically, Northeast asserts that there is "nothing to prevent Union from expanding the Hagar facility to jointly provide both LNG transportation fuel and distribution system integrity. (lines 19-21, p.15, Affidavit of J. Stephen Gaske). Northeast, at page 16 of the same Affidavit, further asserts that "it is reasonably anticipated that Union will initially expand its Hagar LNG fuel capacity ... and likely move from a small interruptible service to a larger firm service." This is simply not the case. Union has no plans to expand the Hagar facility nor does it have the ability to offer a firm service at Hagar (Van Der Paelt Affidavit, Schedule 'C').

14. Although Union does anticipate the market for LNG as a transportation fuel will be competitive, at the same time it considers LNG for vehicle transportation to be an emerging market, one that is expected to develop gradually over the next several years

(see Exhibit B.Staff.6) (Van Der Paelt Affidavit, Schedule 'C'). Union believes this is an important distinction. As the market develops, the Board will have ample time to consider the competitiveness of the market (Van Der Paelt Affidavit, Schedule 'C'). At present, given the market in general and the circumstances related to the Hagar Facility that affect Union's participation in that market, Union believes forbearance as sought by Northeast is premature and not an issue that the Board needs to consider as part of this proceeding.

15. However, with respect to new greenfield-type LNG developments that are independent of the regulated operations, it is Union's expectation that such developments would fall outside of rate regulation and be the subject of a section 29(1) application. Such an application would extend to all LNG fuel uses, not just for LNG that is used exclusively as a transportation fuel and is therefore subject to regulatory exemption, which can be supplied by a new stand-alone plant investment. This is not the case with the Hagar facility (Van Der Paelt Affidavit, Schedule 'C').

16. For the reasons noted above, Union believes that this is not the time or proceeding for the Board to make a determination specific to the competitive nature of the LNG market. The Board can and should proceed with hearing Union's application and setting a rate and approving the related cost allocation methodologies for the utility.

17. Should the Board, however, agree with Northeast's Motion, Union will, in any event, require the Board to make a finding on its cost allocation methodologies as set out in Union's updated pre-filed evidence.

UNION GAS LIMITED
P.O. Box 2001
50 Keil Drive North
Chatham, ON N7M 5M1

SCHEDULE 'A'

AFFIDAVIT OF BILL FAY

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Schedule 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 rates and other charges for an interruptible natural gas liquefaction service.

AFFIDAVIT OF BILL FAY

I, Bill Fay, of the City of Chatham, in the Province of Ontario, MAKE OATH AND SAY:

1. I am the Manager of Underground Storage (Canada) for Union Gas Limited ("Union") and, as such, have knowledge of the matters which I herein depose.

2. I have reviewed the affidavit of J. Stephen Gaske, as filed by Northeast Midstream LP in its Motion Record dated October 15, 2014.

3. Union's Liquefied Natural Gas ("LNG") facility in Hagar, Ontario (the "Hagar Facility") is a regulated asset that is required for system integrity purposes.

4. Union will only offer an interruptible liquefaction service, and the associated LNG, to the extent that there is liquefaction capacity that is excess to utility requirements.

5. Because of the Hagar Facility's importance for system integrity, Union can only offer the proposed liquefaction service on an interruptible basis. The service is effectively controlled by Union's distribution needs should there be a system integrity event.

SWORN BEFORE ME at the City of Chatham, in the Province of Ontario this 23rd day of October, 2014.	
[original signed by]	*[original signed by]*
Commissioner for Taking Affidavits (or as may be)	Bill Fay

Kelly Leigh Buchanan, a Commissioners, etc., Province of Ontario, for Union Gas Limited and its subsidiaries and affiliates. Expires May 30, 2017

SCHEDULE 'B'

AFFIDAVIT OF GREG TETREAULT

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Schedule 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 rates and other charges for an interruptible natural gas liquefaction service.

AFFIDAVIT OF GREG TETREAULT

I, Greg Tetreault, of the City of Chatham, in the Province of Ontario, MAKE OATH AND SAY:

1. I am the Manager of Rates and Pricing for Union Gas Limited ("Union") and, as such, have knowledge of the matters which I herein depose.

2. I have reviewed the affidavit of J. Stephen Gaske (the "Gaske Affidavit"), as filed by Northeast Midstream LP ("Northeast") in its Motion Record dated October 15, 2014.

3. There are a number of statements made in the Gaske Affidavit asserting that Union's existing distribution customers will "underwrite" the proposed interruptible liquefaction service (p. 2, lines 10-12; p. 3, lines 4-7; p. 12, line 18; p. 14, line 14; p. 15, lines 1 and 10-14; p. 16, lines 1 and 22; p. 17, line 13; p. 19, line 21). The assertion that existing distribution customers will underwrite, or subsidize, the interruptible liquefaction service is incorrect. Existing ratepayers will in no way fund the proposed interruptible liquefaction service. Rather, during the period prior to rebasing all incremental capital and O&M costs (including variable costs) associated with the provision of the interruptible liquefaction service will be allocated to Rate L1 and will be recovered in the proposed interruptible liquefaction service rate.

4. The cost-based interruptible liquefaction service rate will contribute to the recovery of existing Hagar Facility liquefaction and storage costs, as well as Union North distribution costs.

5. Costs not recovered through Rate L1 will be managed by Union since this period is subject to a final rate order that will not permit (unless otherwise provided for through a deferral or variance account) the recovery of costs from existing ratepayers.

6. Upon rebasing, the Ontario Energy Board will again have the opportunity to fully review the costs associated with the liquefaction service. In addition, as part of any rate base

addition associated with the incremental capital cost and the establishment of the rate, the Ontario Energy Board will be provided with and will consider a revenue forecast relative to costs to demonstrate economic viability. To the extent such revenue forecast is not accurate, Union bears the risk.

SWORN BEFORE ME at the City of Chatham, in the Province of Ontario this 23rd day of October, 2014.	
[original signed by]	*[original signed by]*
Commissioner for Taking Affidavits (or as may be)	Greg Tetreault

Kelly Leigh Buchanan, a Commissioners, etc., Province of Ontario, for Union Gas Limited and its subsidiaries and affiliates. Expires May 30, 2017

SCHEDULE 'C'

AFFIDAVIT OF SARAH VAN DER PAELT

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Schedule 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 rates and other charges for an interruptible natural gas liquefaction service.

AFFIDAVIT OF SARAH VAN DER PAELT

I, Sarah Van Der Paelt, of the City of Chatham, in the Province of Ontario, MAKE OATH AND SAY:

1. I am the Director of Sales Business Markets for Union Gas Limited ("Union") and, as such, have knowledge of the matters which I herein depose.

2. I have reviewed the affidavit of J. Stephen Gaske (the "Gaske Affidavit"), as filed by Northeast Midstream LP ("Northeast") in its Motion Record dated October 15, 2014.

3. Due to the constraints on the Hagar Facility's LNG volume under the liquefaction service and the interruptible nature of the proposed liquefaction service, there is a limited supply of LNG available from the Hagar Facility. The available and marketable LNG from the Hagar Facility is estimated to be only 5 percent of the projected volume from Northeast planned natural gas liquefaction facility in Thorold, Ontario. As such, Hagar will have no material impact on the overall competitiveness of the LNG market.

4. Northeast asserts in the Gaske Affidavit that "there is nothing to prevent Union from expanding the Hagar facility to jointly provide both LNG transportation fuel and distribution system integrity" (p. 15, lines 19-21). Northeast further asserts in the Gaske Affidavit that "it can reasonably be anticipated that Union will initially expand its Hagar LNG fuel capacity in an attempt to capture as much market share as possible. In doing so, Union would be likely to move from a small interruptible service to a larger firm service." These assertions are not correct.

5. Union has no plans to expand the Hagar Facility nor does it have the ability to offer a firm service at Hagar.

6. Although Union does anticipate that the market for LNG as a transportation fuel will be competitive, it also considers LNG for vehicle transportation to be an emerging market that is expected to develop gradually over the next several years. This is an important

distinction because, as the market develops, the Ontario Energy Board will have time to consider the competitiveness of the market.

7. With respect to the possibility of new greenfield-type LNG developments that are independent of Union's regulated operations, it is Union's expectation that such developments would fall outside of rate regulation and be the subject of a section 29(1) forbearance application. Such an application would extend to all LNG fuel uses, not just for LNG that is used exclusively as a transportation fuel and is therefore subject to regulatory exemption, which can be supplied by a new stand-alone plant investment. This is not the case with the Hagar facility.

SWORN BEFORE ME at the City of Chatham, in the Province of Ontario this 23rd day of October, 2014.

[original signed by]

Commissioner for Taking Affidavits
(or as may be)

[original signed by]

Sarah Van Der Paelt

Kelly Leigh Buchanan, a Commissioners, etc.,
Province of Ontario, for Union Gas Limited
and its subsidiaries and affiliates.
Expires May 30, 2017