



ONTARIO ENERGY BOARD

STAFF SUBMISSION

Union Gas Limited

EB-2014-0275

October 29, 2014

Introduction

On August 26, 2014 Union Gas Limited (“Union”) filed an application with the Ontario Energy Board (the “Board”) requesting several orders and approvals (the “Application”) that, if granted, would fully transfer Tipperary Gas Corp. (“Tipperary”) ownership and authority to operate two natural gas storage pools in the Municipality of Central Huron (“Huron Pools”) to Union.

Application

Union applied for approval to purchase 25% of Tipperary’s voting securities pursuant to section 43(2)(a) of the *Ontario Energy Board Act, 1998* (the “Act”). Union currently holds the remaining 75% of the voting securities/shares of Tipperary. Tipperary is a general partner of Huron Tipperary Limited Partnership 1 (“Tipperary LP”), which carries out an unregulated non-utility natural gas storage business consisting of Huron Pools.

The Board approved Union’s acquisition of 75% shares in 2007 in the EB-2007-0837 proceeding (“2007 Acquisition Approval”).

In its Application, Union also requested on behalf of Tipperary, an order of the Board pursuant to section 18(1) of the Act, granting leave to transfer the authority to operate the Huron Pools from Tipperary to Union.

From the beginning of Huron Pools operation Union has been and will be marketing all of the 3.1 PJs capacity of these pools as an unregulated capacity. Union stated in the Application that, because the acquisition is related to unregulated storage business, there will be no impacts on any of Union' regulated customers, should the Board approve the acquisition of the remaining shares. Union also stated that its shareholders will assume all the financial risks associated with the proposed acquisition and that the ratepayers will be held whole.

Union also asked the Board to "cancel the Decision and Order" regarding the storage services contract between Union and Tipperary (EB-2008-0049) which the Board approved per section 2.3.1. of the *Affiliate Relationships Code for Gas Utilities* ("ARC"). Union stated that if the acquisition is approved there will be no affiliate relationship between the parties.

By way of letter dated September 22, 2014 Union modified the Application by removing the original request for approval to acquire the remaining 23.84777% of limited partnership interest in Tipperary LP.

Board Staff Submission

Acquisition of Tipperary by Union-Section 43(2) Application

Section 43(2) of the Act reads:

(2) No person, without first obtaining an order from the Board granting leave, shall,

(a) acquire such number of voting securities of a gas transmitter, gas distributor or storage company that together with voting securities already held by such person and one or more affiliates or associates of that person, will in the aggregate exceed 20 per cent of the voting securities of a gas transmitter, gas distributor or storage company;

On August 18, 2014 Union and Tribute entered into a Purchase and Sale Agreement to complete the acquisition of the remaining 25% shares subject to Board's approval.

Union proposed to complete the acquisition by November 30, 2014.

Based on Union's pre-filed evidence, Board staff have no concerns regarding the impact of the approval of the acquisition on Union's ratepayers.

Regarding the risk of the transaction itself Union stated that its shareholders will fully absorb the cost and the financial risk of transaction.

Regarding the financial risk of the Huron Pools operations, it is Board staff's view that Union's ratepayers will not be adversely impacted because Union will offer unregulated storage services from operating the Huron Pools. Union also submitted that all direct

operating and maintenance costs related to the Huron Pools will be allocated to Union's unregulated storage operation.

Currently, Union and Tipperary have a M16 transportation contract to set the transportation rate Tipperary pays to Union for transportation of gas between Dawn and Huron Pools to inject and withdraw gas from storage. Once the acquisition is completed the M16 contract will be null and void and the revenue that is currently allocated to Union's ratepayers will be lost. To compensate the ratepayers for the loss of M16 revenue, after the acquisition is completed, Union stated it would annually add an amount equivalent to this revenue to Union's regulated transportation revenue.

Board staff are also satisfied that Union stated that the assets of Tipperary LP will be classified as "unregulated" and excluded from Union's utility rate base.

In conclusion, Board staff are satisfied that Union is committed to taking all the necessary steps to ensure that the proposed acquisition has no adverse impact on Union's ratepayers.

Transfer of Operating Authority to Union-Section 18(1) Application

Section 18(1) of the Act reads:

18. (1) No authority given by the Board under this or any other Act shall be transferred or assigned without leave of the Board. 1998, c. 15, Sched. B, s. 18 (1).

The Board, in EB-2006-0018/EB-2006/0159/EB-2006-0279 proceeding granted to Tipperary the authority to operate the Huron Pools (“Huron Pools Operating Orders”). In the same proceeding Union requested that conditions to Huron Operating Orders be amended on account that Union becomes an operator of the Huron Pools. Union and Tipperary entered into an Operating Agreement dated December 18, 2007.

To allow Union to act as a Huron Pools operator, the Board, on July 2, 2008, exempted Tipperary from certain operation related conditions. Union was required to file evidence that demonstrated that CSA 341.1 requirements related to Operations and Maintenance Procedures and Emergency Response Plan, under the authority of the Ministry of Natural Resources be satisfied. This ensured that Union operates the Huron Pools safely and with appropriate technical and operational expertise.

Since the first gas injection in 2008 in Huron Pools, Union has been the operator under Operating Agreement with Tipperary. Union’s technical and operational capabilities as a storage operator have been demonstrated and placed on the record and reviewed and accepted by the Board. Board staff have no concerns about Huron Pools Operating Orders being transferred from Tipperary to Union.

Cancellation of the Requirement of ARC

Section 2.3.1 of the ARC states:

2.3.1 The term of an Affiliate Contract between utility and an affiliate shall not exceed five years, unless otherwise approved by the Board.

In accordance with the ARC section 2.3.1. the Board approved in its EB-2008-0049 order a current ten year storage services contract between Union and Tipperary.

Board staff submit that, should the Board approve the proposed acquisition of the remaining shares of Tipperary by Union, the affiliate relationship will cease to exist and the requirement of ARC section 2.3.1. will not apply.

- All of which is respectfully submitted -