

November 7, 2014

VIA EMAIL AND RESS

Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, Ontario
M4P 1E4

Attention: Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: EB-2014-0012 Union Gas Limited ("Union") - Hagar Liquefaction Service

Further to Procedural Order No. 4 dated October 24, 2014, please find attached the Reply Affidavit of J. Stephen Gaske submitted on behalf of Northeast Midstream LP.

Yours very truly,



David E. Lederman
DEL/md

Copy: Charles Keizer, Torys (by e-mail)
Michael Millar, Legal Counsel, Ontario Energy Board (by e-mail)
Intervenors (by e-mail)

6389863

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 necessary to accommodate a new interruptible natural gas liquefaction service at its Hagar Liquefied Natural Gas Facility.

REPLY AFFIDAVIT OF J. STEPHEN GASKE
ON BEHALF OF NORTHEAST MIDSTREAM LP
(Sworn November 6, 2014)

1 I, Stephen Gaske, in the City of Fredericksburg, in the State of Virginia, in the United States
2 of America, **MAKE OATH AND SAY:**

3 1. I filed an earlier affidavit in this proceeding on October 15, 2014. The purpose of this Reply
4 Affidavit is to respond to certain arguments raised by Union Gas Limited ("Union") in its October
5 23, 2014 Response Re Motion of Northeast Midstream ("Union's Response").

6 2. Paragraph 6(c) of Union's Response indicates that one reason it is requesting regulated
7 treatment for its Hagar LNG fuel venture is that "*the available marketable LNG at Hagar is estimated to*
8 *be only 5 percent of the projected volume of the Northeast facility. In Union's view, Hagar will have no material*
9 *impact on the overall competitiveness of the LNG market.*" However, the significance of Union's argument
10 is the opposite of what it is suggesting.

3. S. 29(1) of the Ontario Energy Board Act states that the Board shall make a determination to refrain, in whole or part, from regulating an activity if it finds as a question of fact that the activity will be subject to competition sufficient to protect the public interest. Union's argument that it will be small and therefore unable to impact the LNG market is merely another way of saying that Union's LNG fuel venture will be subject to competition sufficient to protect the public interest. According to S. 29(1) this means that the Board should refrain from regulating Union's LNG fuel venture.

4. Paragraph 6 (a) of Union's Response suggests that its proposal involves unique circumstances because "*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*". This argument suggests that LNG fuel service will be a relatively small activity incidental to the distribution system integrity needs, and that this unique circumstance requires Board regulation. However, a review of Union's use of Hagar for system integrity needs during the past five years indicates that somewhere between 95 and 100 percent of the liquefaction capacity of Hagar is likely to be available for the LNG fuel venture each year:

	GJ	Source
1 Daily Liquefaction Capacity	3,186	Response to BOMA.21
2 Days in Year	x 365	
3 Gross Annual Liquefaction Capacity	1,162,890	Line 1 x Line 2
4 Less: Boil-off Re-Liquefaction	104,000	Response to BOMA.21
5 Net Annual Capacity	1,058,890	Line 3 - Line 4
6 Less: Max. 5-Yr. Annual Utility Use	40,125	BOMA.25 (Sum of 2013 volumes)
7 Available for Non-Utility Use	1,018,765	Line 5 - Line 6
8 Minimum Available for Non-Utility	96.2%	Line 7/Line 5

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1 Although somewhat less capacity may be available due to occasional stops for maintenance, these
2 figures indicate the approximate magnitude of distribution system use and the volumes available for
3 LNG fuel sales. From this it can be seen that interruptions will be rare and that distribution system
4 integrity could easily become the activity that is incidental to the LNG fuel service activity. Thus, it
5 would be incorrect to conclude that the Hagar facility has special circumstances that require the
6 Board to regulate its LNG fuel venture.

7 5. Paragraph. 7 of Union's Response argues for regulating the competitive LNG fuel venture
8 because: "*For storage, Union's in-franchise and ex-franchise requirements were easier to determine and ultimately*
9 *separate.*" However, Union is proposing to spend \$9.9 million on incremental facilities, mostly for
10 dispensing and pumping facilities that have nothing to do with gas distribution operations. These
11 costs are easily separated from utility requirements and there is no reason for the Board to regulate
12 these facilities or to ultimately roll them in with Union's gas distribution rate base in the future.

13 6. Similarly, while cost allocation sometimes can be complicated, it is an integral part of
14 ratemaking and not beyond the ability of Union or the Board. Union indicates that in the second
15 half of 2016 only 152,640 GJ (305,280 GJ on an annualized basis) of its liquefaction capacity will be
16 used for LNG fuel service, but that twice as much capacity (610,560 GJ) will be used for LNG fuel
17 service in 2018.¹ In order to allocate costs between regulated utility and competitive non-utility
18 services Union and the Board would need to determine how much of the Hagar liquefaction and
19 storage capacity is excess to utility needs at this time. That exercise should be no more difficult than
20 determining how much storage capacity was excess to utility needs in the NGEIR proceeding.

¹ Exhibit A, Tab 2, Schedule 5, line 9.

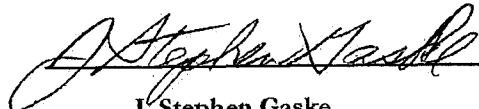
1 7. Paragraph 9 of Union’s Response claims that “*The assertion that existing distribution customers will*
2 *underwrite, or subsidize, the interruptible liquefaction service is incorrect. To be clear, existing customers will in no*
3 *way fund the proposed service.*” (Emphasis added). In this argument Union is conflating “underwrite”,
4 which refers to backstopping or risk taking, and “fund”, which refers to the source of initial cash for
5 investment. My original affidavit addressed risk, not funding, and Union does not respond to the
6 risk argument. However, Union was clear in its intention to shift the risks of its new LNG fuel
7 service to distribution ratepayers.

8 8. For example, in respect to incremental non-utility fuel dispensing and storage costs Union
9 states that it will “... *add the capital costs to rate base when the proposed facilities are deemed to be in service. These*
10 *facilities will be included in Union’s forecasted rate base at its next cost of service proceeding.*” (Union Response to
11 Staff.7). Thus, Union intends to roll those costs into its distribution rate base and embed the risks
12 of failure or underperformance within an undetermined cost allocation process.

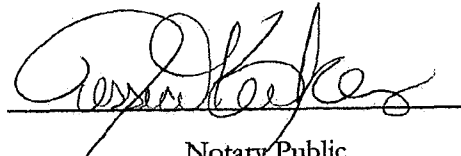
13 9. In addition, as discussed in paragraph 6 above, Union’s proposal in this proceeding implies
14 that it intends to allocate liquefaction costs to the new, competitive service only to the extent that
15 the new liquefaction service grows. If the LNG service does not succeed, presumably no costs will
16 be allocated to the service at the next cost of service hearing and the risks of excess non-utility
17 capacity will revert back to distribution ratepayers.

18 10. In both of these examples, Union has indicated that it intends for distribution utility
19 customers to absorb the costs if its LNG fuel venture fails. Thus, distribution customers will not
20 **fund** the new facilities. Instead, they will **underwrite** the risks by paying for the cost of the facilities
21 if the venture fails or underperforms.

- 1 11. I make this affidavit in support of Northeast's motion made pursuant to section 29(1) of the
2 *Ontario Energy Board Act* and for no other purpose.


J. Stephen Gaske

SWORN before me at the City of Fredericksburg in the State of Virginia, United States, on
November 6, 2014.


Notary Public

My Commission Expires:

7/31/16

JESSICA KERKES
NOTARY PUBLIC 7518297
COMMONWEALTH OF VIRGINIA
MY COMMISSION EXPIRES 07-31-2016