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November 19, 2014

VIA COURIER, EMAIL, RESS

Ms. Kirsten Walli
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 26th Floor
Toronto, ON M4P 1E4

Re: Enbridge Gas Distribution Inc. ("Enbridge")
EB-2014-0288 - Chatham D Designated Storage Area Amendment
Application and Evidence

The Ontario Energy Board ("Board"), in E.B.O. 201, approved the Chatham 7-17-XII Pool ("Chatham D") as a designated storage area in 1998. At that time, CanEnerco Limited was the Applicant to the Board. Subsequently, Enbridge acquired the Chatham D Pool assets. Enbridge hereby applies to the Board for an order amending the area of the designated storage area of the Chatham D Pool.

Enclosed please find two copies of the application and evidence in support of the above noted proceeding.

A redacted version is being filed in confidence in accordance with the Board's policy regarding personal information.

For further information about the project, please visit the Enbridge website at:
www.enbridgegas.com/ChathamD

Yours truly,

(ORIGINAL SIGNED)

Shari Lynn Spratt
Supervisor Regulatory Proceedings

cc: Ms. Pascale Duguay, Manager Natural Gas Applications, Ontario Energy Board

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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 Enbridge Gas Distribution Inc. under sections 36.1(1)(b) and 38 of the Act for an order or orders amending the designated storage area of the Chatham 7-17-XII Pool in the Municipality of Chatham-Kent;

CHATHAM “D” DESIGNATED STORAGE AREA AMENDMENT

1. The Applicant, Enbridge Gas Distribution Inc. (“**EGD**” or “**Enbridge**”), is an Ontario corporation with its head office in the City of Toronto. It carries on the business of selling, distributing, transmitting and storing natural gas within Ontario.
2. The Ontario Energy Board (the “**Board**”), in E.B.O. 201, approved the Chatham 7-17-XII Pool (“**Chatham “D” Pool**”) as a designated storage area in 1998. At that time, CanEnerco Limited (“**CanEnerco**”) was the Applicant to the Board. Subsequently, Enbridge acquired the Chatham “D” Pool assets. Enbridge hereby applies to the Board for an order amending the area of the designated storage area of the Chatham “D” Pool.

3. No facilities are contemplated with this Application and the overall storage volumes and deliverability of the pool will not change. A map of the existing and proposed designated storage areas can be found in Exhibit A, Tab 2, Schedule 2.
4. The new designated storage area would include two individual additional properties, owned by Property Owners 10 and 12 as shown in Exhibit C, Tab 1, Schedule 4. In addition, Enbridge has become aware that the owner of the municipal right-of-way, the Municipality of Chatham-Kent, areas 19 and 20 on Exhibit C, Tab 1, Schedule 4, had not been approached by CanEnerco regarding a gas storage agreement for the area under the municipal rights-of-way. The agreement with the Municipality of Chatham-Kent is discussed in Exhibit C, Tab 1, Schedule 1.
5. Enbridge has included the form of agreements at Exhibit C, Tab 1, Schedule 6 that have been offered to and executed with the landowners directly impacted by the proposed expansion. Enbridge is still in the process of finalizing the agreement with the Municipality of Chatham-Kent.
6. The interested parties include the Ministry of Natural Resources and the landowners within the proposed designated storage area. A list of interested parties is provided at Exhibit A, Tab 2, Schedule 4.
7. Enbridge requests this Application proceed by way of written hearing in English.
8. Enbridge request the Board issue:
 - (i) Order(s) for the proper processing, consideration and determination of this application;

- (ii) Pursuant to section 36.1(1)(b) of the *Ontario Energy Board Act*, 1998 (the “**Act**”) order(s) amending the designated storage area as detailed in the Application; and
- (iii) Pursuant to section 38 of the Act, order(s) granting Enbridge approval to inject gas into, store gas in, remove gas from the amended designated storage area, to enter into and upon land in the area and use the land for that purpose.

9. Enbridge requests that copies of all documents filed with the Board in connection with this proceeding be served on it and on its counsel, as follows:

- (a) The Applicant: Regulatory Affairs
Enbridge Gas Distribution Inc.

Address for personal service: 500 Consumers Road
Toronto, ON M2J 1P8

Mailing Address: P. O. Box 650
Scarborough, ON M1K 5E3

Telephone: (416) 495-5499
Fax: (416) 495-6072
E-Mail: EGDRRegulatoryProceedings@enbridge.com
- (b) The Applicant’s counsel: Scott Stoll
Aird & Berlis LLP

Address for personal service and mailing address: Suite 1800, Box 754
Brookfield Place, 181 Bay Street
Toronto, Ontario
M5J 2T9

Telephone: (416) 865-4703
Fax: (416) 863-1515
E-Mail: sstoll@airdberlis.com

DATED November 19, 2014 at Toronto, Ontario.

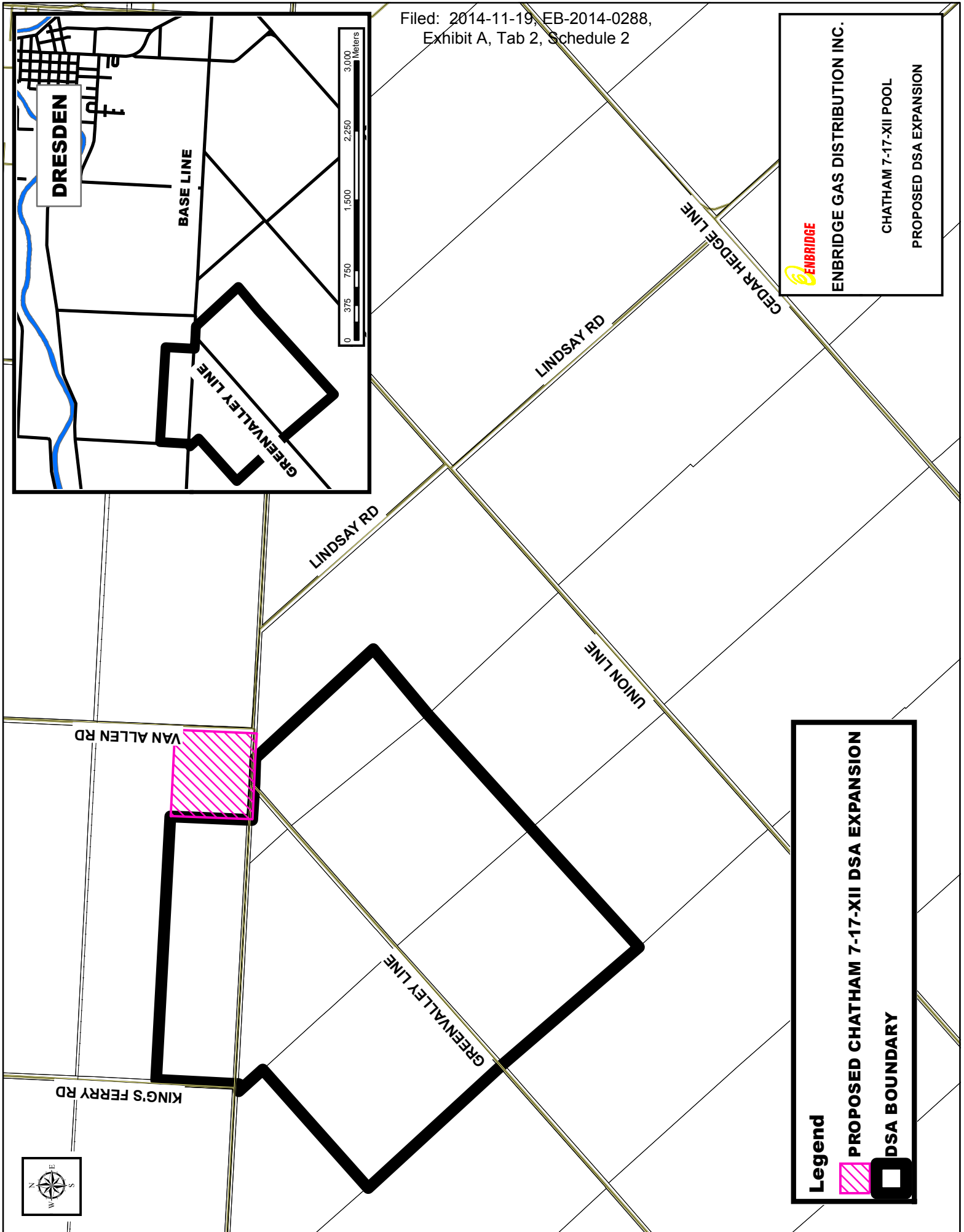
ENBRIDGE GAS DISTRIBUTION INC.

By its counsel

AIRD & BERLIS LLP

[original signed]

Scott Stoll



PROPOSED DESIGNATED STORAGE AREA

1. The following is a description of the additional lands to be added to the designated storage area:

ALL AND SINGULAR those certain parcels or tracts of land and premises, situate, lying and being in the Gore of the Geographic Township of Camden, in the Municipality of Chatham-Kent, Province of Ontario, and being more particularly described as follows:

The South half of the East one quarter of Lot 1, Concession 2.

2. The following is a metes and bounds description of the proposed Chatham 7-17-XII Pool designated storage area including the additional lands described above.

ALL AND SINGULAR those certain parcels or tracts of land and premises, situate, lying and being in the Geographic Township of Chatham and the Gore of the Geographic Township of Camden, in the Municipality of Chatham-Kent, Province of Ontario, and being more particularly described as follows:

FIRSTLY: Being composed of the Northwest half of Lot 16, the Northwest half of Lot 17 and the Northwesterly quarter of Lot 18, Concession 11, in the Geographic Township of Chatham;

SECONDLY: Being composed of the Southeast half of Lot 16, all of Lot 17 and all of Lot 18, Concession 12 in the Geographic Township of Chatham;

THIRDLY: Being composed of the Road Allowance between Concessions 11 and 12, in front of Lots 16, 17 and 18, Geographic Township of Chatham and the Road Allowance, the North half of which fronts on Lot 1, Concession 2 in the Gore of the Geographic Township of Camden and the South half of which fronts on Lots 17 and 18, Concession 12 and also fronts on the west part of Lot 18, Concession 11, Geographic Township of Chatham;

FOURTHLY: Being composed of the South half of Lot 1, Concession 2, in the Gore of the Geographic Township of Camden;

which said parcels may be more particularly described as follows:

COMMENCING at the most Westerly angle of Lot 16, Concession 11, Geographic Township of Chatham;

THENCE Southeasterly, along the Southwest limit of said Lot 16 to the dividing line between the Northwest and Southeast halves of said Lot 16;

THENCE Northeasterly, along the dividing line between the Northwest and Southeast halves of Lots 16, 17 and 18, Concession 11, to the dividing line between the Northeast and Southwest halves of Lot 18, Concession 11;

THENCE Northwesterly, along said dividing line between the Northeast and Southwest halves of Lot 18, to the Southerly limit of the Road Allowance between the Geographic Township of Chatham and the Gore of the Geographic Township of Camden, known as Base Line;

THENCE Easterly, along the Southerly limit of Base Line to the Southerly production of the East limit of Lot 1, Concession 2, Gore of the Geographic Township of Camden;

THENCE Northerly, along said Southerly production and along the East limit of Lot 1, to the dividing line between the North and South halves of Lot 1, Concession 2;

THENCE Westerly, along said dividing line between the North and South halves, to the Westerly limit of Lot 1, Concession 2;

THENCE Southerly, along the said Westerly limit and its Southerly production to the Southerly limit of the Road Allowance between the Geographic Township of Chatham and the Gore of the Geographic Township of Camden, known as Base Line;

THENCE Westerly, along said Southerly limit of Base Line, to the Northwesterly angle of Lot 17, Concession 12, Geographic Township of Chatham;

THENCE Southeasterly, along the Northeasterly limit of Lot 16, Concession 12, to the dividing line between the Northwest and Southeast halves of Lot 16, Concession 12;

THENCE Southwesterly, along said dividing line between the Northwest and Southeast halves, to the Southwesterly limit of Lot 16, Concession 12;

THENCE Southeasterly, along said Southwesterly limit of Lot 16 and its production, Southeasterly across the Road Allowance between Concessions 11 and 12, Geographic Township of Chatham, to the point of commencement.

LIST OF INTERESTED PARTIES

1. Interested parties include individuals and entities that own property within the designated storage area. Personal information regarding individuals has been redacted from the chart below. The interested parties also include entities that have an interest or encumbrance on the lands. The list of encumbrances has been redacted.

<u>NAME</u>	<u>Municipal Address</u>
The Municipality of Chatham-Kent	PO Box 640, 315 King St W Chatham, ON N7M 5K8
Ministry of Natural Resources Petroleum Operations Section	659 Exeter Road London ON N6E 1L3

SUMMARY OF PREFILED EVIDENCE

1. Enbridge Gas Distribution Inc. ("Enbridge") is applying to the Ontario Energy Board for an amendment to the designated storage area for the Chatham 7-17-VII Pool ("Chatham D") to incorporate an additional area, described below. The request for a change in designation is the result of a report from Sproule Worldwide Petroleum Consultants (the "Sproule Report") which indicates that the geologic formation extends beyond the designated storage area to the northeast. A copy of the Sproule Report is provided at Exhibit B, Tab 1, Schedule 3.
2. The additional area to be designated does not result in an increase in the gas storage capacity or any change in deliverability of gas from the pool. Rather, the amendment to the designated storage area description is intended to reflect the existing geology which extends northeast of the current designation and ensure the pool is protected from third party activities and so that landowners within the expanded area receive annual rentals consistent with those landowners within the current DSA. The proposed additional area to be included is:

ALL AND SINGULAR those certain parcels or tracts of land and premises, situate, lying and being in the Gore of the Geographic Township of Camden, in the Municipality of Chatham-Kent, Province of Ontario, and being more particularly described as follows:

The South half of the East one quarter of Lot 1, Concession 2.

The new area represents an increase of approximately 25 acres, or approximately 4.7%, to the existing 530.13 acres in the existing designated storage area. A

description of the geology of the Chatham 7-17-VII Pool is provided at Exhibit B, Tab 1, Schedule 2, page 1.

Background

3. Gas production from the Chatham 7-17-VII Pool started in December 1991. Two wells were drilled and operated on primary as gas producers, first Chatham 2 in December 1991, and then CanEnerco 1 beginning in March 1997. In 1997 CanEnerco applied to the Board for designation and authority to inject, store, and remove gas from the Chatham 7-17-VII Pool. In 1998, the Chatham 7-17-VII Pool was designated and CanEnerco received authority to inject, store, and remove gas from the Chatham 7-17-VII Pool. A copy of the Board's decision, EBO-201 issued February 4, 1998 which recommended to the lieutenant governor in council designation of the storage area and the Board Decision granting the authority to inject, store, and remove gas may be found at Exhibit B, Tab 1, Schedule 4, Attachment A and B, respectively.
4. In RP-2001-0057/EB-2001-0777 the Board approved the transfer or assignment of the authority provided to CanEnerco to Enbridge in 2002 (Exhibit B, Tab 1, Schedule 4, Attachment C). Enbridge has operated the facility since that time.
5. In 2012 Enbridge, Enbridge undertook a 3D seismic analysis of the Chatham 7-17-VII Pool to gain a better understanding of the complexities of the reef. A 3D geological model was built by Sproule in Petrel software using 3D seismic and petrophysical analysis of the wells. The simulation model was developed from the Petrel geological model. The dynamic reservoir simulation modelling of the oil and water production was carried out using Computer Modeling Group's IMEX software.

6. It is believed that CanEnerco began injection into the Chatham D reef around July 8, 1998, but the data from July 8, 1998 to June 23, 2002 was not transferred to Enbridge when the asset was sold. Gas injection was done through the two original production wells (converted to meet CSA Z341 Standards) and two wells drilled specifically for gas storage purposes – CanEnerco 4 and CanEnerco 5. Enbridge gas storage performance data beginning on June 23, 2002, was used to build the model. The amount of data, and the fit of the data to actual performance of the pool has led to the conclusion that there is no increase in storage capacity or deliverability, but the geologic formation used for storage extends beyond the current designated area.

Designated Storage Area

7. The legal description of the current Board designated storage area is found at Exhibit C, Tab 1, Schedule 2. The proposed designated storage area is provided at Exhibit C, Tab 1, Schedule 3. Enbridge would note the proposed area agrees with the designated storage area originally requested by CanEnerco in 1997. The Board, in EBO-201, declined to include the northeast corner as there was insufficient evidence regarding that area to include it in designated area. Given the operating history and the modelling results, the evidence now confirms the northeast area is part of the geologic formation in the pool.
8. In EB-2011-2013/14/15 the Board posed four questions to determine if an area was appropriate for designation as a gas storage area. The four questions were:
 - (a) Is the underlying geological formation appropriate for storage operations?
 - (b) Is the tract of land to be designated appropriately bound and sized to provide for safe operation of the storage pool?
 - (c) Does the Applicant have the necessary leases and agreements with the directly affected landowners?

(d) Is there a need for this incremental storage capacity in Ontario?

Geological Formation

9. The description of the geologic formation is provided in Exhibit B, Tab 1, Schedule 2. The current mapped reef in the northeast corner is beyond the boundary of the current designated storage area.

Appropriate Size

10. The amendment to include the additional 25 acres is required to incorporate the mapped reef in the designated storage area and to provide a sufficient area of land around the reef to provide adequate protection.

Appropriate Leases

11. Enbridge has agreements with two of the three rights holders directly impacted by the designated storage area and is in discussion with the Municipality of Chatham-Kent as mentioned in Item 4 of the Application. Templates of the agreements are provided at Exhibit C, Tab 1, Schedule 6. Enbridge is not aware of any other unresolved issues with the landowners.

Need for Storage

12. Enbridge would note that this Application does not increase the storage capacity. The need for the volume of storage was demonstrated in EBO-201 and Enbridge has utilized the storage capacity in the Chatham 7-17-VII Pool for several years. In addition, several other storage applications have been approved since EBO-201 confirming the storage capacity is required. As such, the need for the storage has been demonstrated.

Environmental

13. This Application does not involve the construction or alteration of any physical facilities and no field work or further investigations are required. Therefore, no environmental assessments were performed to support this application.

Consultation

14. As part of this process, Enbridge has met with the directly impacted landowners and the Ministry of Natural Resources.

TECHNICAL DESCRIPTION OF SEISMIC PROCESS AND ANALYSIS

1. This Application for an amendment to the Chatham D Pool DSA arises from a 2012 3D seismic survey of the Chatham D Pool conducted by Enbridge. Enbridge retained Sproule Associates Ltd. ("Sproule") to model the Guelph storage reservoir in 2012. Sproule used the modern 3D seismic data acquisition and processing techniques, combined with geologic data and geophysical logs from six wells to complete a more detailed mapping of the subsurface Guelph storage reservoir. Most significantly, the new seismic analysis shows that the Guelph reef edge extends in a northeast direction beyond the existing DSA boundary. A visual depiction of the Guelph reservoir outline, projected to surface, showing the new interpretation of the shape and position of the Chatham D Pool is provided at Figure 3 below. A copy of Sproule's analysis is provided at Exhibit B, Tab 1, Schedule 3.

Geological and Geophysical Report - Regional Geology

2. The Chatham D Pool is located on the southeastern rim of the Michigan Basin. Approximately 425 million years ago, much of southern Ontario and Michigan was covered by a large inland sea. On the perimeters of the Michigan Basin, water conditions were ideal for reef growth and many pinnacle reefs were formed. In Ontario, these reefs are developed in the Middle Silurian Guelph Formation (Figure 1). Reefs grew to heights that ranged from 15 metres to well over 100 metres. When a reef attains a height of less than 50 metres it is termed an "incipient reef". When a reef attains a height of greater than 50 metres it is termed a "pinnacle reef". The Chatham D reef is a pinnacle reef with a height of approximately 97 metres.

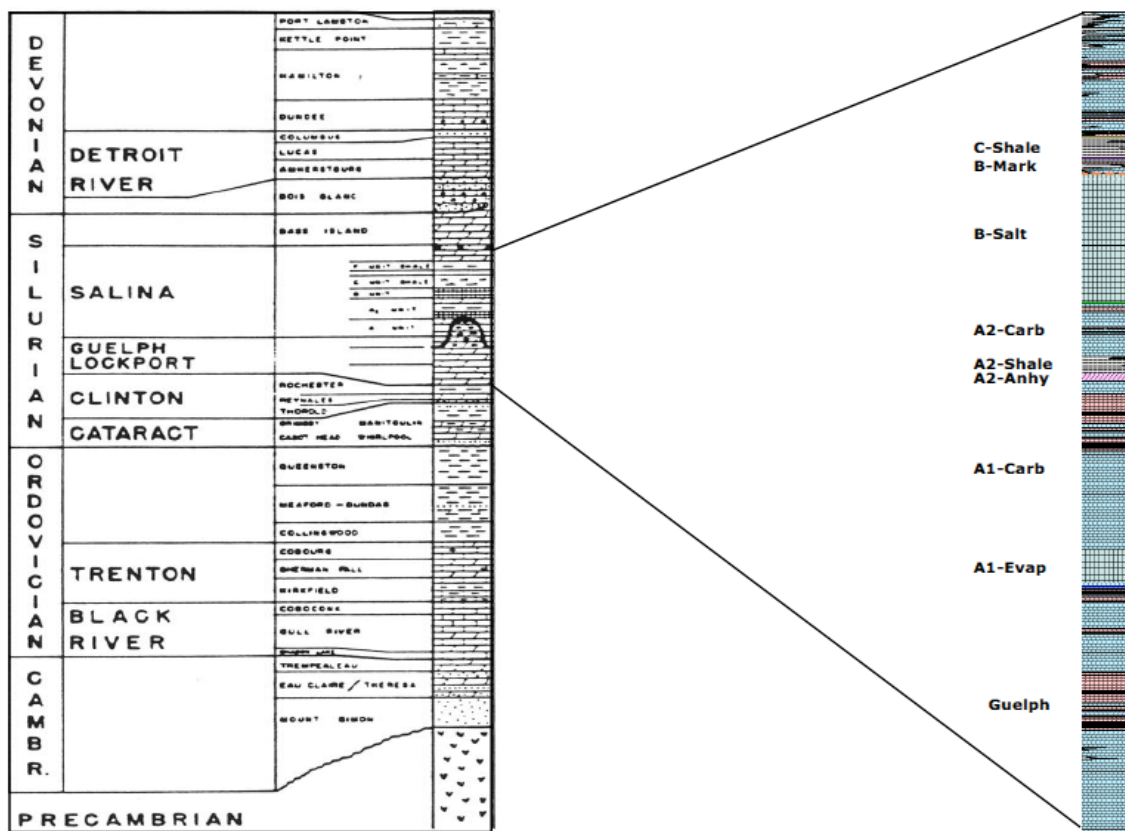
3. Pinnacle reefs are the most common gas storage reservoirs in southern Ontario.

The regional Guelph Formation is overlain by the Salina A-1 Unit, which consists of a thin basal anhydrite (A-1 Evaporite) and dense carbonate mudstones of the A-1 Carbonate. In an off-reef position, the typically non-porous A-1 Carbonate provides a seal that prevents gas from migrating laterally from the Guelph reef. However, some pinnacle reefs have reef-associated porosity in thin layers within the dense A-1 Carbonates. This porosity may hold minor amounts of gas, oil, or water. Above the Guelph pinnacle reef and the off-reef A-1 Carbonate, an effective caprock seal is provided by both the basal A-2 Anhydrite and dense A-2 Carbonate mudstones. A generalized schematic picture of a Guelph pinnacle reef and off-reef sediments is shown in Figure 2.

Reservoir Description & A-1 Carbonate Sucrosic Porosity

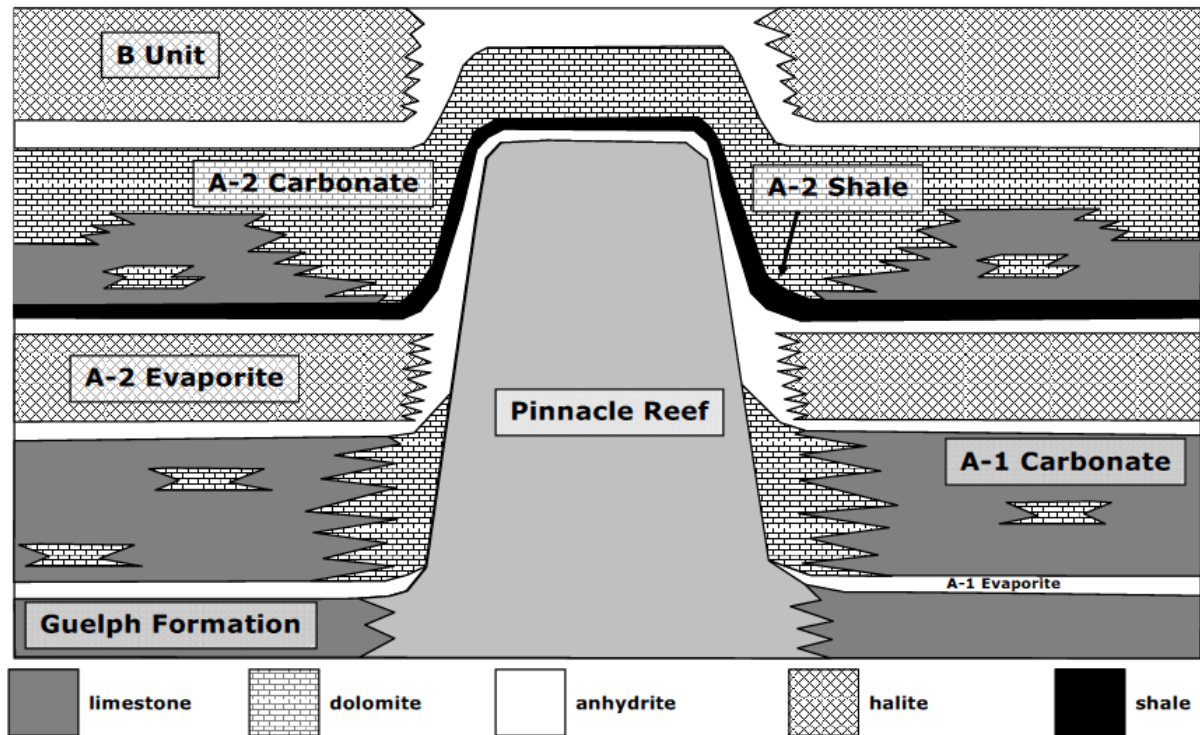
4. At its crest, the reef is approximately 97 metres tall. The detailed geology of the six wells drilled into the Chatham D pool are discussed in the original DSA application.
5. Many pinnacle reefs in southwestern Ontario have porosity in the adjacent off-reef A-1 Carbonate that is connected to the reef. This porosity is usually generated on the leeward (southeast) side of the pinnacle reefs. It is important that this porosity zone be protected within the DSA boundary. With good well control, A-1 sucrosic porosity is easily mapped through sample and log examination, and hydrocarbon or water shows in the A-1 Carbonate. At the Chatham D reef, there is one proximal well that indicates the presence of A-1 porosity. Union-Chatham #38 (Ministry of Natural Resources and Forestry Well Licence Number F002669) indicates near 100% dolomite within the A-1 Carbonate. A gas show within that unit suggests that this zone is likely attached to the reef and should be protected within the DSA. This has been addressed satisfactorily in the approved DSA boundary.

Figure 1 – Generalized Stratigraphic Section



Generalized Stratigraphic Column

Figure 2 – Generalized Reef Schematic



Guelph-A1 Carbonate Schematic Model

Seismic

6. In 2012 Enbridge ran a 3D seismic survey on the Chatham D pool. Using the modern 3D seismic data acquisition and processing techniques, combined with geologic data and geophysical logs from six wells allowed for detailed mapping of the subsurface Guelph storage reservoir. Enbridge retained Sproule Associates Ltd., out of Calgary to interpret and model the Guelph storage reservoir in 2012. In this study Sproule showed that the Guelph reservoir outline, projected to surface, to be slightly different than the shape and position of the Chatham D pool (Figure 3). Most significantly, the new seismic interprets the Guelph reef edge to extend in a

northeast direction beyond the existing DSA boundary. The main reef body is now attached to a northeast reef lobe.

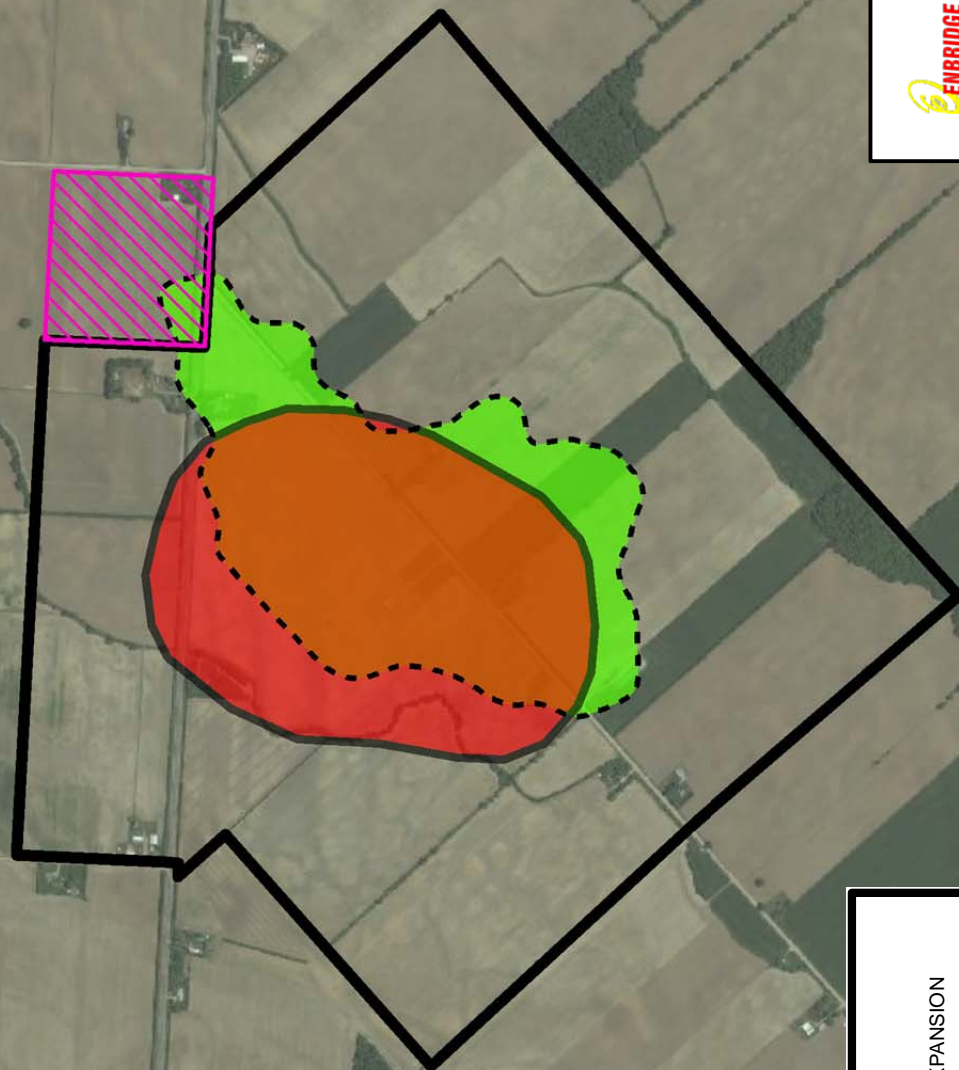
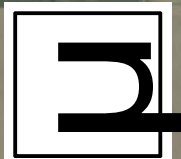
7. Seismic interpretation indicates that the northeast lobe is slightly lower than the main reef and the two are separated by a shallow saddle that does not appear to cut as deep as the gas-water contact of the reef. This would suggest that the two lobes of the reef are in contact/communication with one another. For this reason and due to the small size of the extension, Enbridge believe that no further development drilling is required to access the newly identified northeast lobe of the reef.
8. As a result, is recommended that the Chatham D DSA be expanded to the northeast to protect the integrity of the gas storage reservoir. The new lands to be included are the 25 acres described as Tract 1, Lot 1 of Concession II, the Gore of Geographic Township of Camden. The legal description of the proposed DSA is included at Exhibit C, Tab 1, Schedule 3.
9. The addition of these lands would provide approximately a 250 metre buffer from the newly mapped reef edge to the boundary of the proposed DSA. This would provide sufficient protection for the Chatham D Gas Storage reservoir. CanEnerco's original DSA Application in 1997/98 requested these lands be included within the DSA. However, the available information at that time was insufficient to support its inclusion in the DSA.

Reservoir Containment - Caprock Seal


10. Guelph pinnacle reefs are overlain by the Salina A-2 Anhydrites and dense A-2 Carbonate mudstones that provide the caprock seal for the reefs. At the Chatham D Pool, the A-2 Anhydrite is up to 2.0 metres in thickness. In addition to the A-2 Anhydrite, the basal portion of the A-2 Carbonate is a very dense mudstone that also


contributes to the effectiveness of the caprock. The combination of the A-2 Anhydrite and A-2 Carbonate provides a suitable caprock to ensure the integrity of the pool.


Figure 3 – Map of Chatham D Pool and Existing DSA – see map on next page.




Legend

 PROPOSED CHATHAM 7-17-XII DSA EXPANSION

 DSA BOUNDARY

 CHATHAM 7-17-XII POOL - AS REPORTED IN E.B.O. 201

 CHATHAM 7-17-XII POOL - SPROULE INTERPRETATION



GAS STORAGE OPERATIONS
 3555 TECUMSEH ROAD
 MOORETO WN, ON N0N-1M0
 PHONE: (519) 862-1473
 FAX: (519) 862-1168

CHATHAM 7-17-XII POOL

PROPOSED DSA EXPANSION

DRAWN BY: M.J.CHUPA DATE DRAWN: NOV 13, 2014

eGIS MAP: GS-EGIS-CHATHAM D-EXPANSIO N

Source: Esri, DigitalGlobe, GeoEye, i-cubed, Earthstar Geographics, CNES/Airbus DS, USDA, USGS, AEX, GeoMapping, AeroGRID, IGN, iGP, swisstopo, and the GIS User Community

11. The proposed expanded DSA includes Tract 1, Lot 1, Concession II, Camden Gore, all shown in Exhibit C, Tab 1, Schedule 4 together with the reef outline interpreted from the 3-D seismic survey. Distances from the reef edges to the proposed DSA boundary are as follows: 230 metres to the north boundary; 380 metres to the northwest boundary; 270 metres to the southwest boundary; 310 metres to the southeast boundary; and 220 metres to the proposed new northeast boundary. There are a total of 555.13 acres included in the proposed DSA boundary, of which 25 acres are new.
12. The proposed DSA boundary provides a balance between protecting the reservoir and not eliminating lands from further exploration. The proposed DSA has been designed to be large enough to protect the integrity of the newly mapped Chatham D Pool storage reservoir and any possible A-1 sucrosic porosity that may be attached to the reef, without being excessive.
13. Engineering studies of the Chatham D reservoir suggest that no new storage development drilling is required. Pressure surveys indicate that any new reef structure that has been mapped by the new 3D seismic is already being effectively utilized by existing wells.

Conclusions

14. The Chatham D Pool is a full pinnacle reef buildup that is approximately 97 metres in height. Existing exploration, development and gas storage wells penetrating the reef exhibited excellent gas flows indicative of very good porosity within portions of the reef.
15. The reef is overlain by 2.0 metres of anhydrite and additional dense mudstones which provide an excellent caprock seal for the reservoir.

16. A Designated Storage Boundary has been proposed that will protect the reef itself but also the A-1 sucrosic porosity that is present on the southeast side of the reef.



H.J. Helwerda*, B.Sc., P.Eng., FEC, FGC (Hon.), *President*
D.J. Carsted*, CD, B.Sc., P.Geol., *Executive VP, CTO*
C.P. Six*, B.Sc., P.Eng., *VP, Unconventional*
N.T. Stewart*, B.A.Sc., P.Eng., *VP, Canada*
S.W. Pennell*, B.S., P.Eng., *Manager, Engineering, International*
A.A. Szabo*, B.Sc., P.Eng., *Manager, Engineering, Canada*
B.F. Jose, M.Sc., P.Geoph., *VP, Geoscience, International*
K.P. McDonald, B.Comm., CA, *CFO*
M.R. Van de Veen, QC, J.D., M.B.A., L.L.M., *General Counsel, Corporate Secretary*

**Directors*

Ref.: 1516.18416

October 16, 2014

Enbridge Inc.
 3595 Tecumseh Road
 Mooretown, ON NON 1M0
 Attn. Mr. Paul Druet

Re: Chatham D Designated Storage Area Review

Dear Sir:

This letter report was prepared by Sproule Associates Limited ("Sproule") at the request of Mr. Paul Druet, Enbridge Gas Distribution Inc. ("Enbridge"). The purpose of the report is to summarize geological work done by Sproule in 2012 that led to the mapping of the reservoir beyond the current boundaries of the Designated Storage Area (DSA). The general location of the field is shown in Figure 1. The pool outline and the current Designated Storage Area (DSA) is shown in Figure 2.

The ultimate purpose of the report is to support an application to extend the DSA.

Regional Geology and Stratigraphy

The Silurian-age carbonate reefs in the Great Lakes region of Ontario are low-relief mounds or steeply sided pinnacles 60 to 100 metres in height. The reservoir consists of two main parts: reef and platform carbonates. A schematic model is shown in Figure 3. The Guelph Formation (middle Silurian) consists of laminated carbonates, with muddy reef-capping facies in the upper part, which are limestone, dolomite or partially dolomitized limestone. Overlying the Guelph Formation is the Salina Formation (upper Silurian), with eight units designated from A to G in ascending sequence, containing carbonates, shale, salt and anhydrite. The continuous anhydrite on top of the Guelph Reef and the salt formation on the side of the reef are known to be good cap rock and seal bed. A schematic generalized

Worldwide Petroleum Consultants

stratigraphic column of the Southern Ontario reef complex, with particular reference to the Salina Formation and the Guelph Reef, is shown in Figure 4.

The Chatham D pool development consists of six wells, two of which are off-reef. The wells drilled off-reef penetrate the A1 Carbonate on top of the Guelph Formation, while the A1 Carbonate is absent in the other four wells in the reef zone, with A2 Anhydrite draped over top of the reef. The average subsea depth of the Guelph Reef top is 250 metres.

Structural Modelling

Six wells were available within the 3D seismic survey area. Their well tops were used for velocity analysis and depth control. Nine versions of PSTM volumes (migrated and un-migrated) were provided by Enbridge in a standard SEG Y format and imported into the Petrel 3D visualization and interpretation module. The quality of the seismic data was sufficient to allow the mapping of the subsurface structure. There was no evidence in this area to suggest any fault development, and none was incorporated in the model. The reef shape was well defined by the structure of the Guelph. Figure 5 shows the time structure of the Guelph Reef. Sproule independently re-interpreted the time picks for the A2 Salt, the A1 Carbonate, Guelph and Rochester, and these time structure surfaces were used in conjunction with the well tops provided to generate the depth structure maps. The well locations superimposed on the Guelph Reef depth structure are shown in Figure 6. A depth structure 3D-perspective view (NE-SW) of the Guelph Reef is shown in Figure 7.

Geological Modelling

The Chatham-D model covers an area of 2.4 km². The structural framework of the model was generated through the "make horizons" process using the structure surfaces from the seismic interpretation. The original grid was set with a north-south orientation, to better capture the steep slopes and the A1 pinched-out zones against the reefal body. The zones were automatically defined by the horizons. The "follow base" layering style was used for the interval of the Guelph Reef, and "proportional" layering was used for the other zones. The geological modelling grid was set at 20 by 20 metres horizontally and 158 layers vertically, with an average cell thickness of 1.0 metres. Forty layers were assigned to the A1 Carbonate, and

118 layers to the Guelph Reef and platform. There are 1,425,318 cells in total within the model. The gas-oil contact in the A1 Carbonate was set at 298 mss. This was estimated using test data from the Ontario Oil, Gas and Salt Resources Library. The gas-water contact in the Guelph was set to 282.6 mss.

The Guelph pool was contoured on the basis of the Guelph depth structure, specifically based on the 302 mss contour line, so the pool is associated with the zone where the reef structure is higher than the surrounding region, as shown in Figure 8. The outline shown in Figure 8 is the basis of the Guelph outline shown in Figure 2. Figure 9 distinguishes reservoir from non-reservoir and defines the reservoir boundary as it exists on the final geological modelling grid of the Guelph Reef.

Engineering Considerations

The reservoir volume mapped outside of the DSA (Figure 2) is very small relative to the total size of the pool. The extension is thus inconclusive from an engineering perspective as the associated volume could easily be located elsewhere in the pool. The extension could only be confirmed by drilling. However, this would not result in a beneficial gas storage well, as the reef is mapped as quite thin in this region. On the other hand, without the protection of the DSA, Enbridge is exposed to the risk of another operator drilling into the reef.

It is recommended that an application be made to extend the DSA to cover the additional volume. The evidence provided by the geological work is considered to be conclusive enough in itself to warrant the extension, without drilling a well.

Exclusivity

This report has been prepared for the exclusive use of Enbridge Inc. and its partners, and shall not be reproduced, distributed or made available to any other company or person, regulatory body or organization without the knowledge and written consent of Sproule Associates Limited, and without the complete contents of the report being made available to that party.

Enbridge Inc.
 Sproule Associates Limited

4

October 16, 2014

Permit to Practice

Sproule Associates Limited is a member of the Association of Professional Engineers and Geoscientists of Alberta and our permit number is P00417.

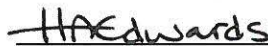
If we can be of assistance to you in this or any other matter, please contact us.

Sincerely,

SPROULE ASSOCIATES LIMITED



Frank Sorensen, P.Eng.
 Manager, Reservoir Studies and Partner
13 / 11 / 2014 dd/mm/yr



Hayley Edwards, M.Sc., G.I.T.
 Geophysicist-in-Training/Geomodeller
 and Associate
13 / 11 / 2014 dd/mm/yr

Sproule Executive Endorsement

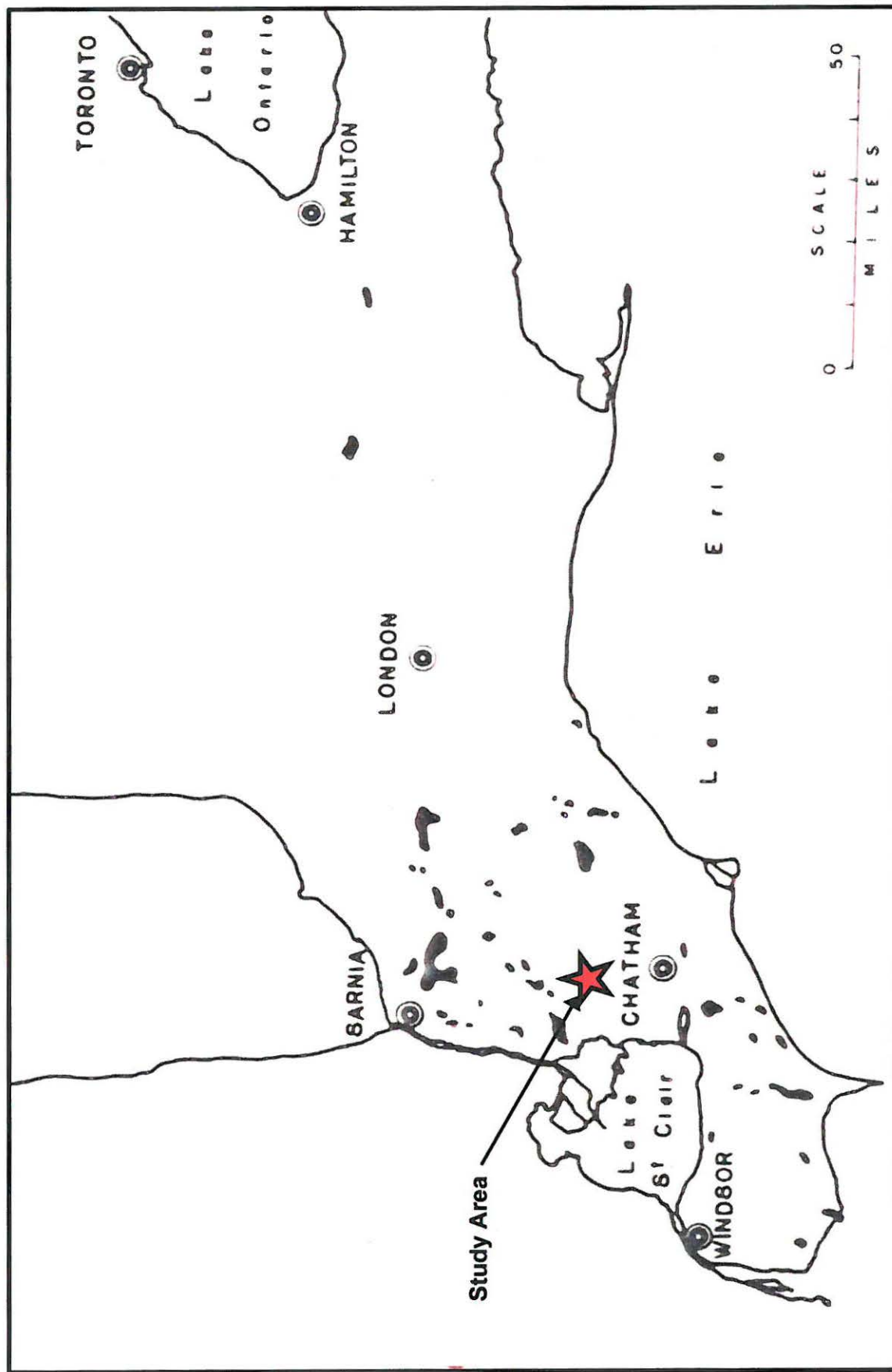
This report has been reviewed and endorsed by the following Executive of Sproule:



Douglas J. Carsted, CD, P.Geol.
 Executive Vice-President,
 Chief Technology Officer and Director
13 / 11 / 2014 dd/mm/yr

FS:nmt

Figure 1



Chatham D Location Map

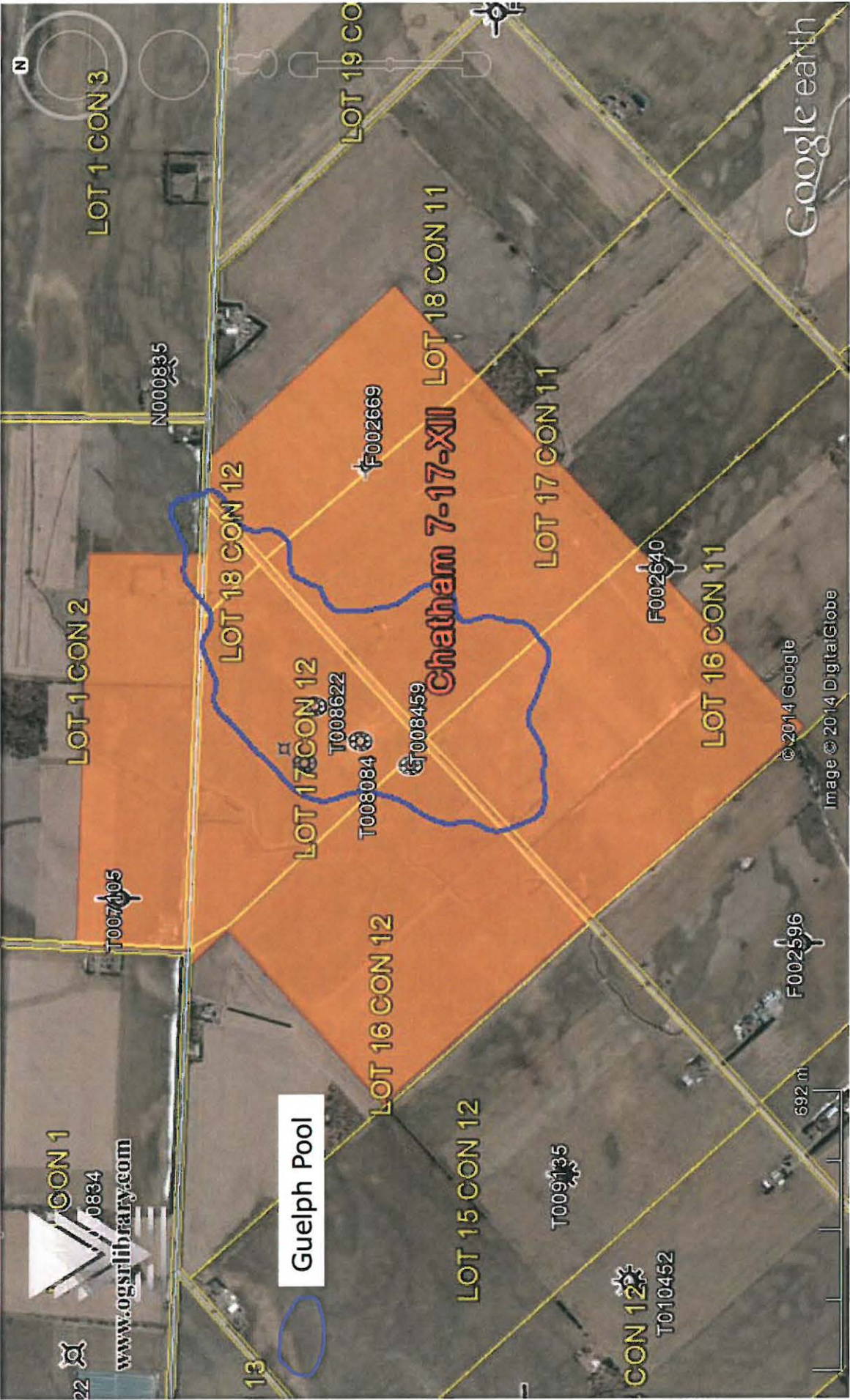
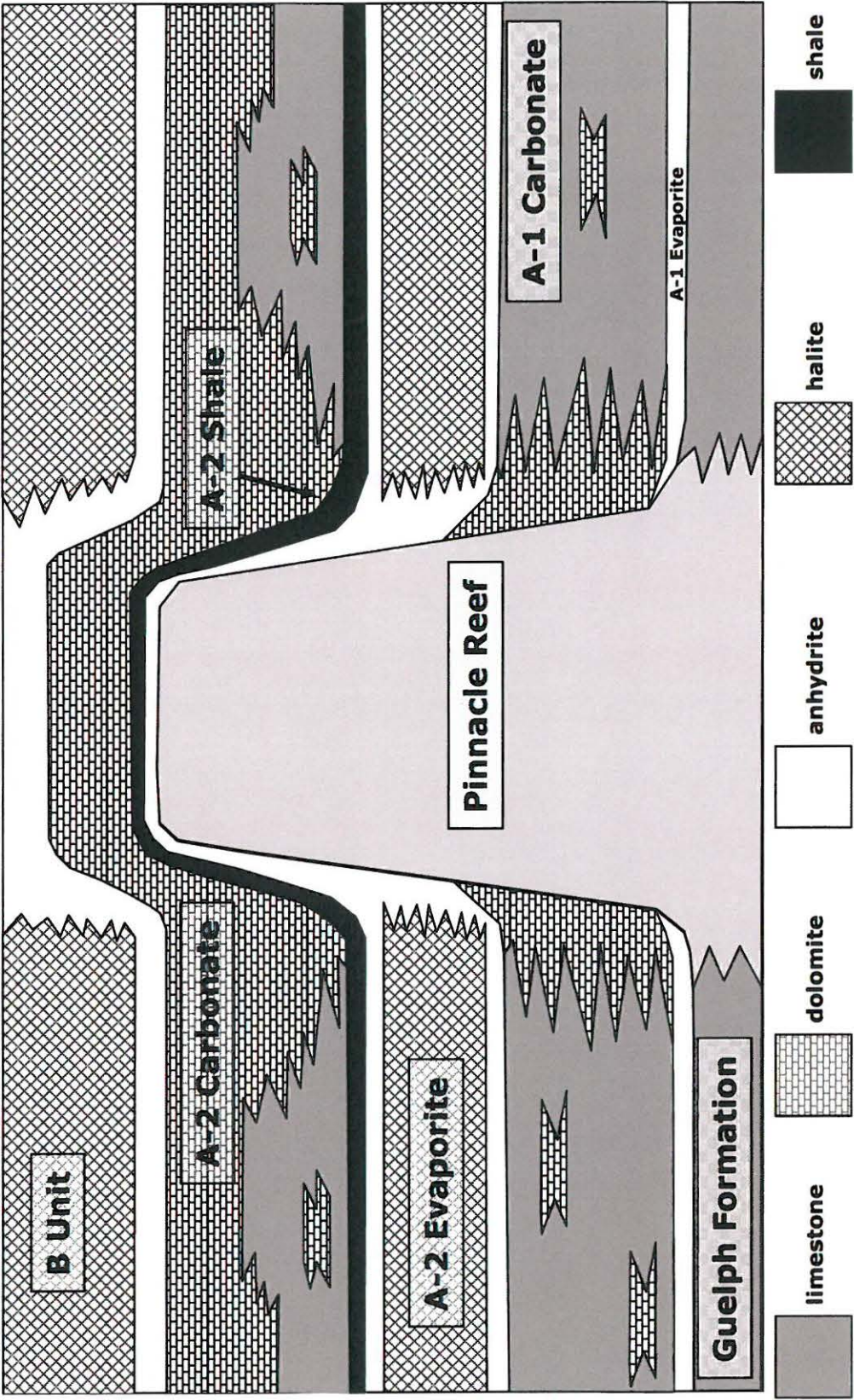


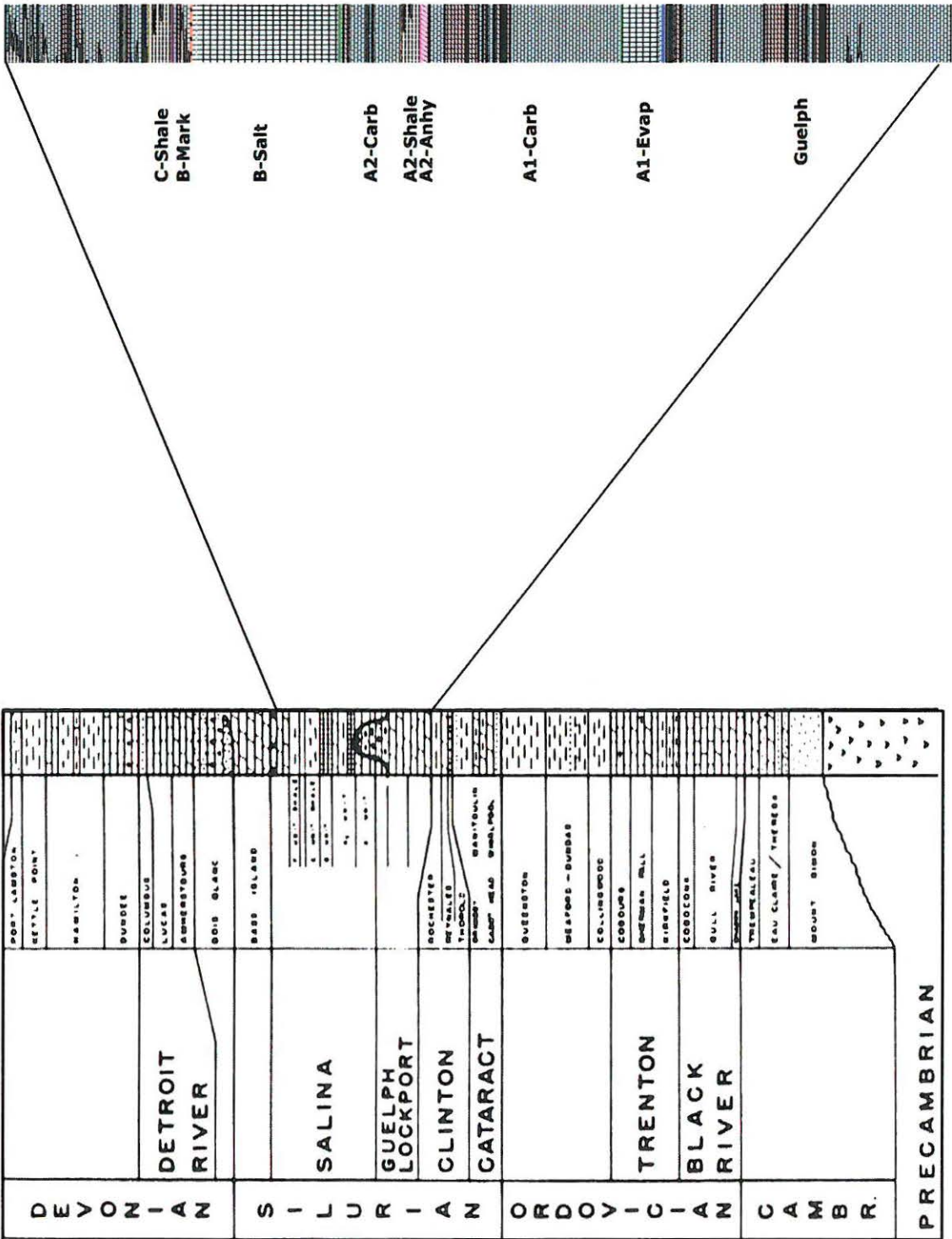
Figure 2

Pool Outline and Designated Storage Area



Guelph-A1 Carbonate Schematic Model

Figure 3



Generalized Stratigraphic Column

Figure 4

Figure 5

Map View of Time Structure from Seismic Data - Guelph Reef

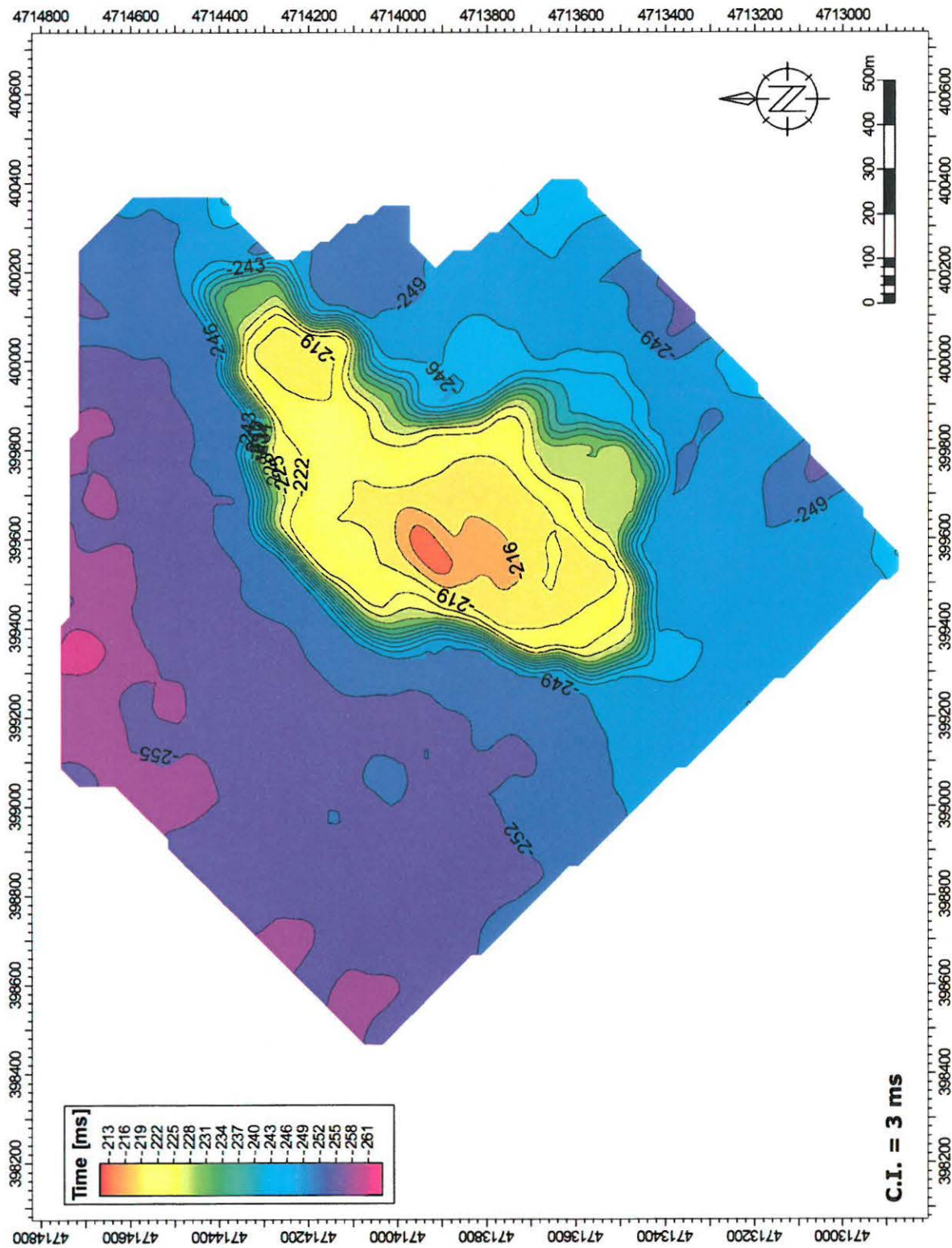
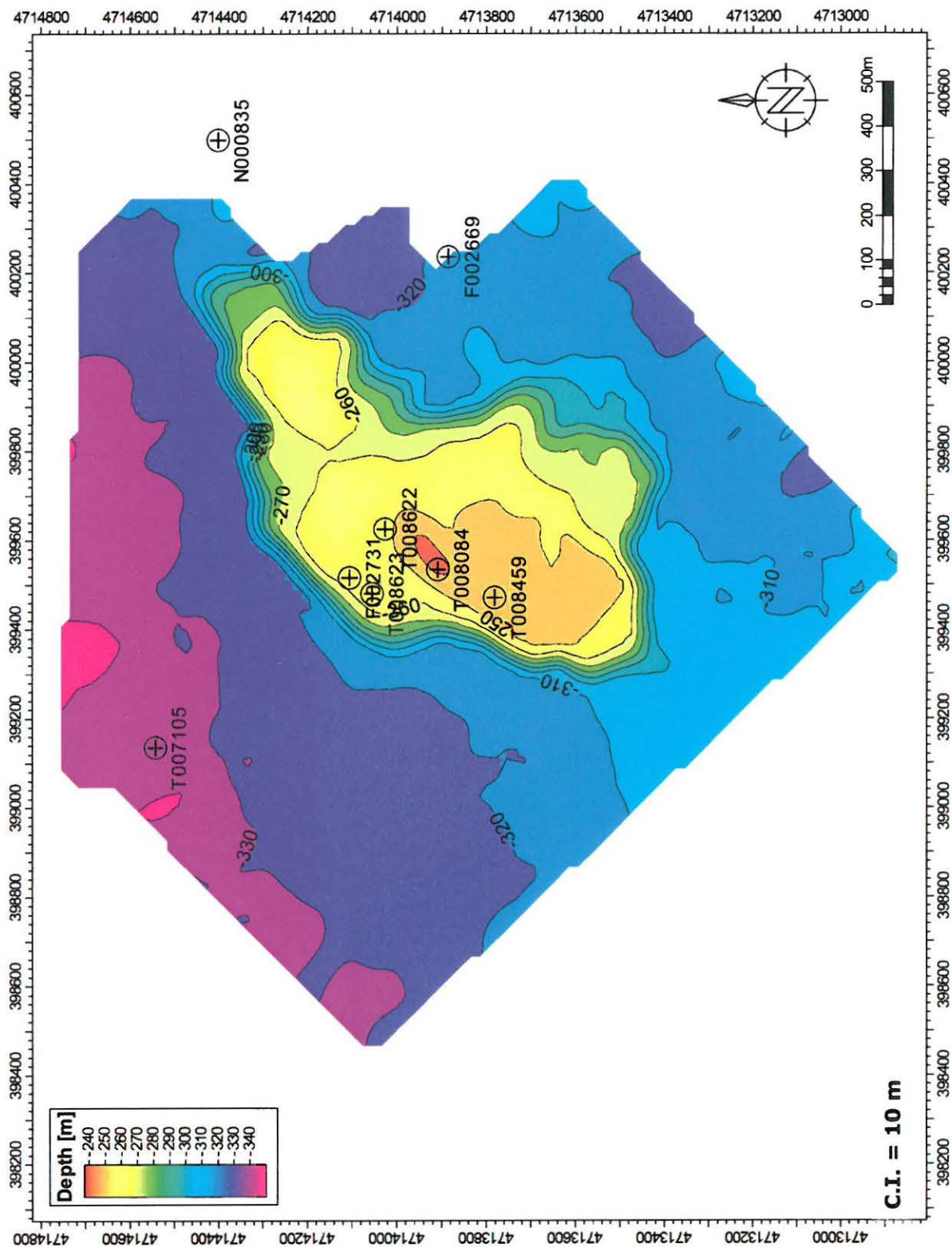
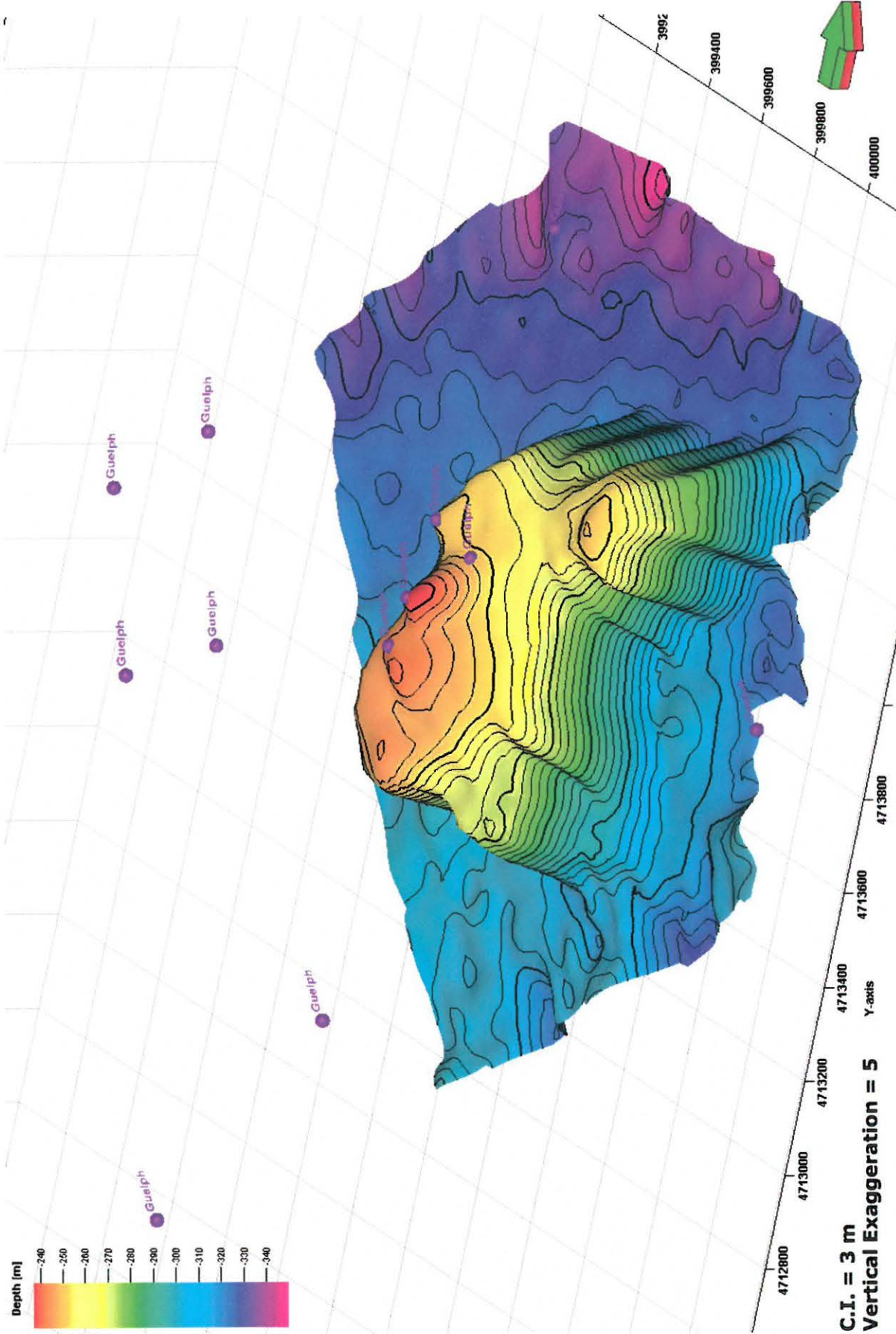


Figure 6

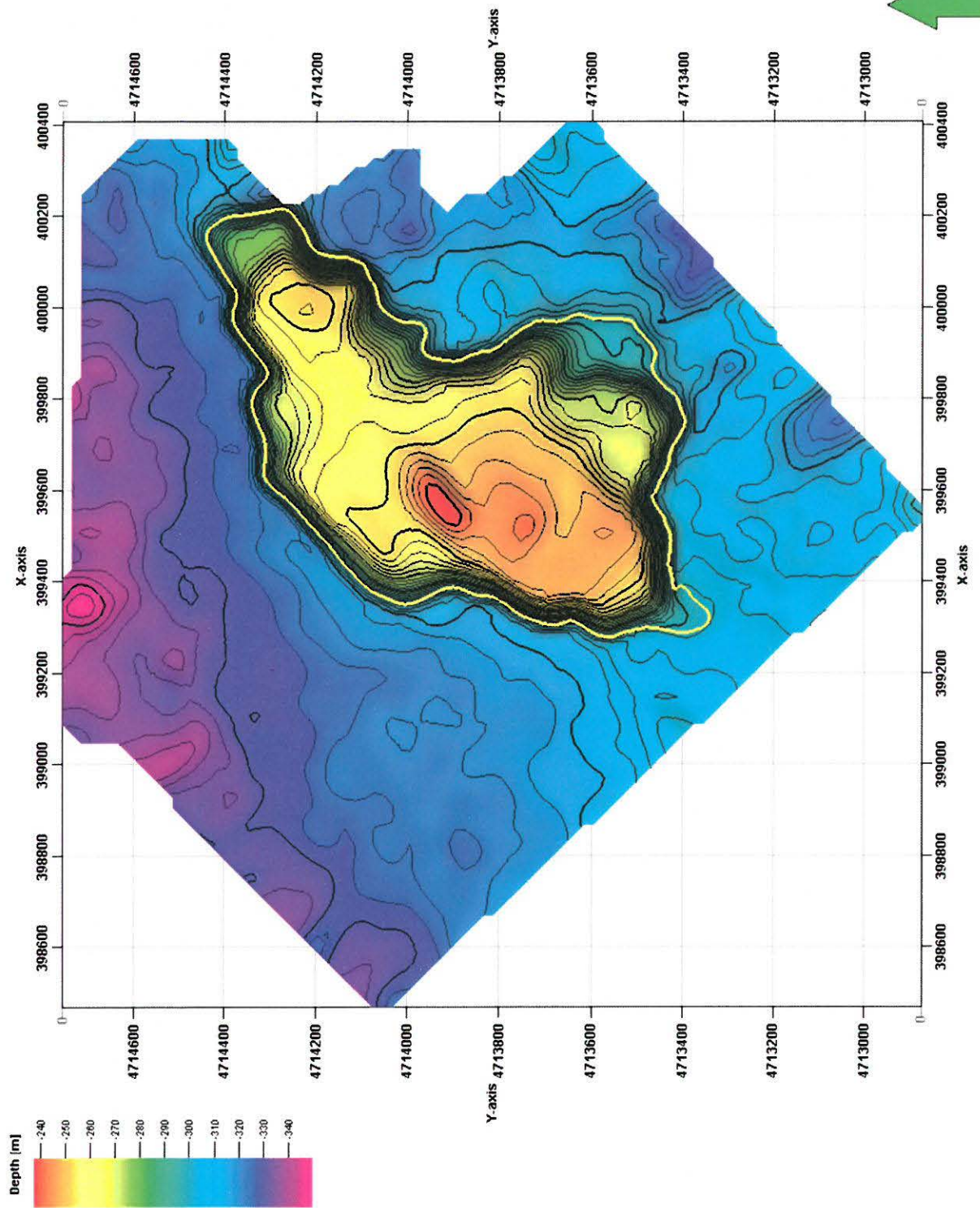


Well Locations Superimposed on the Depth Structure - Guelph



3D Perspective View of Depth Structure with Well Tops - Guelph (WSW - ENE)

Figure 8

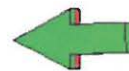


Elevation Map with Pool Boundary - Guelph

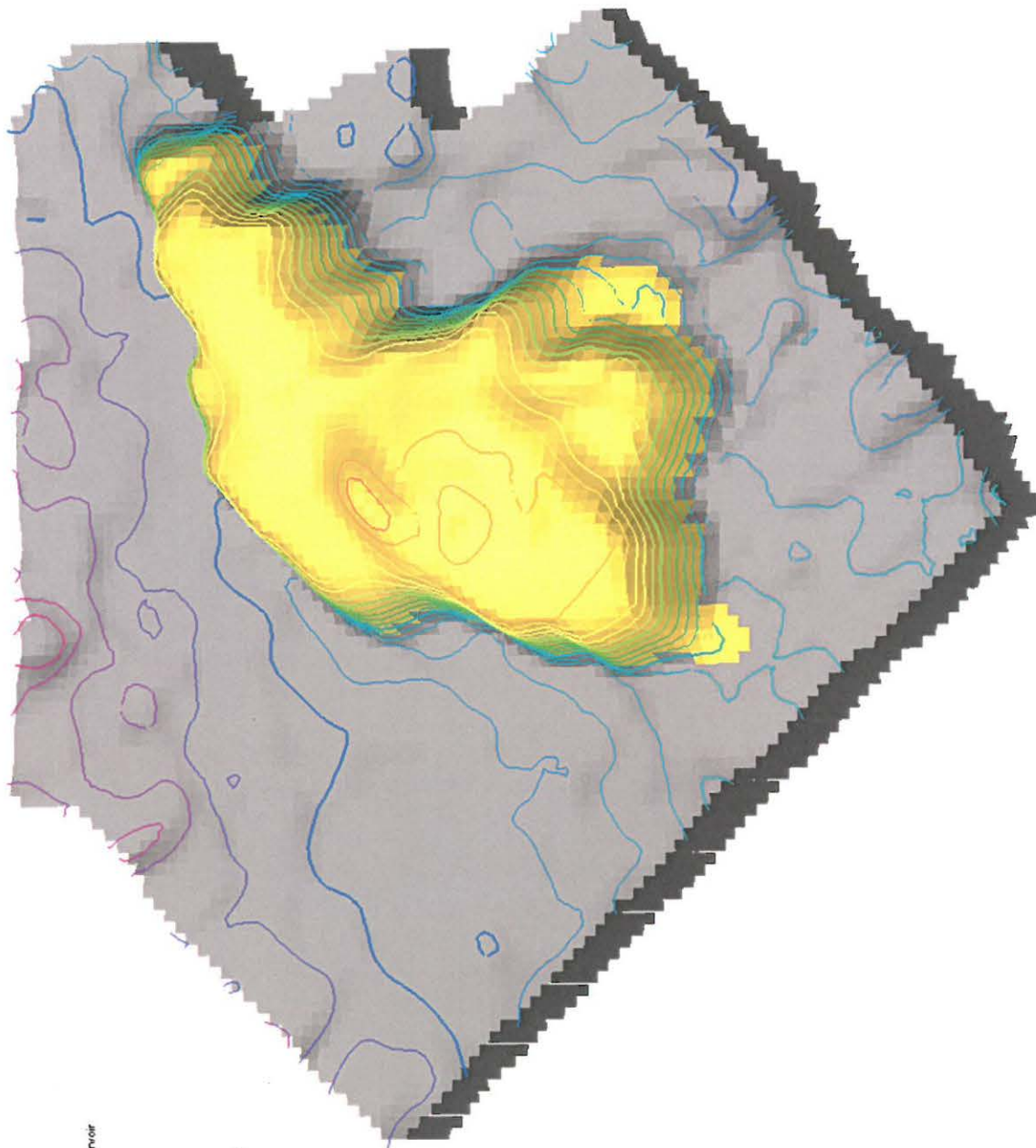
Figure 9



Pool Outline - Guelph



Reservoir Area
Gross_Guelph



PRIOR BOARD PROCEEDINGS FOR CHATHAM &-17-XII POOL

1. E.B.O. 201 Report of the Board to the Lieutenant Governor in Council from the Ontario Energy Board dated February 4, 1998 recommending designating the storage area in respect of the Chatham 7-17-XII Pool is included as Attachment A.
2. E.B.O. 201 Decision with Reasons from the Ontario Energy Board dated February 4, 1998 authorizing CanEnerco to inject, store, and remove gas from the Chatham 7-17-XII Pool is included as Attachment B.
3. In RP-2001-0057/EB-2001-0777 the Board granted transfer or assignment of the authority that had been granted to CanEnerco to Enbridge. A copy of the Decision with Reasons and Order is included as Attachment C.

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E.B.O. 201

IN THE MATTER OF the Ontario Energy Board Act
[\[12JF7-0:1\]](#), R.S.O. 1990, c. O.13;

AND IN THE MATTER OF an Application by CanEnerco
Limited for a Regulation designating the Chatham 7-17-XII
Pool as a gas storage area, situated in Chatham and Camden
Townships, Kent County.

Before: P. Vlahos
Presiding Member
R.M.R. Higgin
Vice Chair/Member
F.A. Drozd
Member

REPORT OF THE BOARD TO THE LIEUTENANT GOVERNOR IN COUNCIL

February 4, 1998

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APPENDICES

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APPENDIX A

[83]

**METES AND BOUNDS DESCRIPTION OF THE CHATHAM 7-17-XII
POOL DESIGNATED STORAGE AREA**

[84]

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1 .THE APPLICATION AND HEARING

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1.1 The Application for Designation of the Chatham 7-17-XII Pool

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1.1.1 CanEnerco Limited ("CanEnerco" or "the Company" or "the Applicant") holds rights to certain oil and gas properties in southwestern Ontario. It produces and markets oil and natural gas from seven pools, marketing on average 3,000 Mcf per day of natural gas, or about 1.1 Bcf per year.

16

1.1.2 By Application dated June 23, 1997 CanEnerco applied to the Ontario Energy Board ("the Board"), pursuant to section 35 [12JF7-0:263] of the Ontario Energy Board Act ("the Act"), for a regulation designating as a gas storage area certain lands overlaying the Chatham 7-17-XII Pool ("the Chatham Pool" or "the Pool"), located in Lots 16, 17 and 18, Concession XI and Lots 16, 17 and 18, Concession XII, Chatham Township, and Lot 1, Concession II, Camden Township, Kent County. The area proposed for designation is approximately 560 acres. It is located just west of Dresden and east of Wallaceburg and straddles Kent County Road 15. The Application for designation was assigned Board File No. E.B.O. 201.

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1.1.3 A map showing the location of the subject lands overlaying the Pool that were proposed for designation is shown in Figure 1.

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1.2 The Companion Applications and the Reference

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1.2.1 In addition to the designation Application, the Company filed for:

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- an order of the Board pursuant to section 21(1) [12JF7-0:146] of the Act, authorizing the Company to inject gas into, store gas in, and remove gas from, the Pool, and to enter into and upon the lands for such purposes. This Application was also assigned Board File No. E.B.O. 201.

22

- an order of the Board pursuant to sections 46[12JF7-0:421] and 48 [12JF7-0:442] of the Act, granting leave to construct approximately 5.8 km of NPS 10 line and associated facilities to connect the Pool with the Panhandle Transmission system of Union Gas Limited ("Union Gas"). This Application was assigned Board File No. E.B.L.O. 263.

23

- permits from the Minister of Natural Resources to drill two injection/withdrawal wells in the Pool. This matter was referred to the Board pursuant to section 23(1) of the Act by the Minister of Natural Resources in a letter of reference dated May 14, 1997, as amended by a further letter dated September 19, 1997. The Reference was assigned Board File No. E.B.R.M. 109.

1.2.2 The Board's recommendation to the Minister of Natural Resources regarding the drilling permits and the Board's Decision regarding the Company's other requests are dealt with in separate Board documents. This E.B.O. 201 Report deals with the Company's request for designation of the Chatham 7-17-XII Pool as a designated storage area ("DSA").

24

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1.3 The Hearing

1.3.1 Following the publication and service of the Board's Notice of Application, dated July 28, 1997, a technical conference was held at the Board's offices on September 16, 1997, attended by representatives of CanEnerco, Board Staff and intervenors. During the conference, discussion took place concerning the appropriate issues for the hearing.

26

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1.3.2 An issues day was held by the Board on September 25, 1997 to hear submissions on several contested issues. The Board subsequently set out the approved Issues List as part of Procedural Order No. 3, dated October 1, 1997.

1.3.3 The hearing of the Applications took place at the Board's offices from December 16 to 18, 1997. An oral summary was presented by Board Staff on December 19, 1997 and written argument-in-chief was submitted by CanEnerco on December 24, 1997. Written arguments from intervenors were submitted January 9, 1998 and written reply argument was submitted by CanEnerco on January 16 and 21, 1998.

28

29

1.3.4 The following parties and their representatives appeared at the hearing:

30

CanEnerco Limited	Peter Budd
Board Staff	Jennifer Lea
The Consumers' Gas Company Ltd. ("Consumers Gas")	Fred Cass
Union Gas Limited	Douglas Sulman
	Mrs. Mary Marchand
	Robert Marchand
Kent County	John Ferguson

1.3.5 CanEnerco called the following Company personnel as witnesses:

31

32

Robert Chenery	President and CEO
Phillip Walsh	Vice-President, Corporate Development
John Thomson	General Manager, Lands and Contracts
Joe Gorman	Manager, Gas Supply Operations

33

1.3.6 In addition, CanEnerco called the following consultants to provide evidence:

34

Robert Trevail	President, Orion Resources Consulting Ltd.
Donald Corbett	Water and Earth Science Associates Limited ("WESA")

Was page 5 35

1.3.7 Union Gas called the following employees as witnesses:

36

Gary Black	General Manager, Marketing and Sales, Storage and Transportation
Lyn Edwards	Manager, Marketing and Sales

37

1.3.8 In addition, Mr. John Ferguson, County Engineer, County of Kent, testified concerning CanEnerco's proposed use of the County Road 15 road allowance for constructing the proposed NPS 10 line. Mr. Ferguson's testimony relates only to the leave to construct Application.

38

1.3.9 A complete record of the proceedings, together with all exhibits, is available for public inspection at the Board's offices.

39

1.3.10 While the Board has considered all the evidence and submissions, this Report to the Lieutenant Governor in Council ("LGIC") summarizes only those portions of the record that the Board considers necessary to support the conclusions reached with respect to the application for designation of certain lands overlaying the Chatham Pool as a gas storage area.

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2. THE CHATHAM 7-17-XII POOL

2.0.1 This Chapter deals with CanEnerco's evidence in support of its request for designation of the Chatham 7-17-XII Pool as a gas storage area. The areas discussed are:

- Purpose of the Proposed Storage Pool
- Gas Storage Leases
- Geology of the Pool
- Proposed Designated Storage Area

2.1 Purpose of the Proposed Storage Pool

2.1.1 CanEnerco currently does not own or operate any gas storage. It is a producer of oil and gas. Because of certain legislative restrictions on the sale of gas inside Ontario, CanEnerco sells to gas marketers at points outside the Ontario border. CanEnerco intends to use the Chatham Pool to inject its own gas during periods of low gas prices and withdraw the gas when the sale price can be maximized. The gas to be injected will initially come from CanEnerco's Ontario operations. Gas may also be obtained from the Company's planned western Canadian production and possibly from third party purchases. It is not part of CanEnerco's current business plan to offer storage services to third parties.

2.2 Gas Storage Leases

2.2.1 The land that CanEnerco applied to have designated as a gas storage area is comprised of approximately 560 acres in Lots 16, 17 and 18, Concession XI and Lots 16, 17 and 18, Concession XII, Chatham Township and Part of Lot 1, Concession II, Camden Township, as shown in Figure 1. CanEnerco presently holds the gas storage rights for all of the lands enclosed within the boundary of the proposed designated gas storage area, save for one acre in Tract 1, Lot 1, Concession II, Camden Township, owned by Mr. and Mrs. Wallace, and 50 acres comprised of the northwest quarter of Lot 18, Concession XI, Chatham Township owned by Mrs. Mary Marchand. Both properties lie outside the boundary of the Chatham 7-17-XII Unit Operating Agreement ("the unit area") that has governed the production of gas from the Chatham Pool to date.

2.2.2 CanEnerco acquired the petroleum and natural gas ("P& NG") leases and the gas storage leases for all of the lands within the unit area from Malahide Petroleum Ltd., 748160 Ontario Inc. and Raen Petroleum Corporation, in September 1996. Subsequently, CanEnerco also acquired the gas storage leases and the P& NG leases for lands that comprise Lot 1, Concession II, Camden Township, part of which are included in the proposed DSA but were not part of the unit area. The unit

area is smaller than the area proposed for designation. However, not all of the lands in the unit area are included in the proposed DSA. Certain lands in Lot 16 Concession XII in Chatham Township owned by Mr. Weston are excluded from the proposed DSA.

2.2.3 After receiving Mr. Trevail's geological report, which established the boundary of the proposed DSA, CanEnerco attempted to obtain the P& NG leases and gas storage leases for the Wallace and the Marchand properties. It was not successful.

2.2.4 In the case of the Marchand property, the owner wishes to retain her mineral rights to possibly drill a well to supply the Marchand property with natural gas. In total, Mrs. Marchand owns approximately 130 acres in Lot 18, Concession XI, Chatham Township, of which 50 acres are included in the proposed boundary of the DSA.

2.2.5 Mr. and Mrs. Wallace neither intervened nor wrote to the Board to explain their reasons for not wishing to execute P& NG and gas storage leases with CanEnerco.

2.3 Geology of the Pool

2.3.1 According to the evidence of Mr. Trevail, CanEnerco's consulting geologist, the Chatham Pool consists of a pinnacle reef that developed in the Guelph formation when the area, part of the Michigan Basin, was submerged under a warm sea some 440 million years ago. The Chatham Pool developed as a coral reef to about 97 metres (320 ft) in height and its crest is now located approximately 421 metres (1,390 ft) below ground level. Such pinnacle reefs display relatively high porosity (8.0 percent) and permeability, and have a dense impermeable cap rock that, with the surrounding A1 carbonate formation, traps the natural gas within the formation and makes it suitable for storage. Such Silurian pinnacle reefs form some of the best natural gas storage reservoirs in North America.

2.3.2 The Chatham Pool was discovered in May 1990 by 748160 Ontario Limited with the drilling and completion of the Chatham #2, 7-17-XII ("Chatham #2") well. The Pool's discovery pressure was 5,720 kPa (830 psig) and the volume of the original gas in place was calculated to be $81,216 \times 10^3 \text{ m}^3$ (2.87 Bcf). It is the intention of CanEnerco to ultimately operate the Pool up to a pressure of 6,652 kPa (965 psig), corresponding to a pressure gradient of 15.8 kPa/m (0.7 psi/ft), which is the limiting pressure gradient imposed by the Board. When a pool is operated at pressures above its discovery pressure it is described in the industry as "delta pressured". When delta pressured, the estimated storage volume of the Chatham Pool is $95,569 \times 10^3 \text{ m}^3$ (3.37 Bcf). To operate the Pool, CanEnerco will allow a volume $28,000 \times 10^3 \text{ m}^3$ (slightly less than 1 Bcf) to remain in the reservoir as cushion gas. Thus, the effective working volume of the reservoir is $67,569 \times 10^3 \text{ m}^3$ (2.39 Bcf).

2.3.3 Mr. Trevail testified that his geological interpretation of the Chatham Pool was based in part upon a two dimensional seismic analysis that was undertaken for the previous holders of the P& NG leases and acquired by CanEnerco with the purchase of the Chatham Pool in September 1996. Mr. Trevail also relied upon a three dimensional seismic analysis over an area of 1.2 km by 1.5 km that was undertaken by CanGeo Limited in March/April 1997. The three dimensional seismic data

provides a clearer and more accurate picture of the geological detail, and can provide information on target zones of enhanced porosity for drilling injection/withdrawal wells. The results of the seismic analyses, along with the available geological data, were used to determine the size, shape and location of the pinnacle reef.

- 2.3.4 Mr. Trevail defined the crest of the reef as having a maximum height of 97 metres (320 ft) and a gross gas pay thickness of approximately 71 metres (234 ft). The Guelph formation is overlain with a thin layer of impervious A2 anhydrite of up to 2.0 metres in thickness. This in turn is overlain with a much thicker band of A2 carbonate composed of non-crystalline dolomite that, together with the A2 anhydrite, effectively provides an impermeable barrier to trap the gas within the Guelph reef. Mr. Trevail recommended that a core sample be taken of the lower portion of the A2 carbonate and the A2 anhydrite to conduct appropriate mechanical tests to confirm the strength of the cap rock to withstand the proposed delta pressure. CanEnerco confirmed that such a core sample will be obtained. Was page 10 59
- 2.3.5 The Chatham Pool has a reservoir volume of 14,640 acre-feet, and the proposed area to be designated occupies approximately 544.3 acres of privately owned land and 15.7 acres of County road allowance. 60

2.4 Proposed Designated Storage Area 61

- 2.4.1 The Guelph formation is surrounded by the A1 carbonate formation, parts of which may be porous due to the possible presence of sucrosic dolomite. Mr. Trevail was concerned that a gas show reported in the drilling of Union-Chatham #38 well, located in Tract 3, Lot 18, Concession XI, Chatham Township, which is part of the Marchand property and is now capped, might indicate communication with the reservoir. He therefore recommended that the northwest quarter of Lot 18, Concession XI, Chatham Township be included within the boundary of the DSA, even though this area was not included in the unit agreement for gas production. He further noted that porosity is most likely to occur to the southeast of the reef due to the accumulation of reef debris caused by wave action and the prevailing winds from the northwest during the development of the coral reef. 62
- 2.4.2 The designated area recommended by Mr. Trevail includes a buffer zone around the Guelph formation, which is required to protect the reservoir and to contain any gas that might migrate into the surrounding A1 formation. The size of the proposed buffer zone, as measured from the edge of the nearest boundary to the edge of the Guelph formation, is: 63

Was page 11 64

North	223 metres	(736 ft)
Northwest	227 metres	(749 ft)
Southwest	321 metres	(1059 ft)

Southeast	485 metres	(1600 ft)
Northeast	415 metres	(1370 ft)

2.4.3 In previous proceedings the Board has recommended designated boundaries within 40 to 60 metres of the edge of the Guelph reef. However, in the present application Mr. Trevail recommended a larger buffer area be included in the DSA because of the known presence of 100 percent dolomite in the A1 carbonate formation, and the gas show in the Union-Chatham #38 well.

65

2.4.4 Mr. Trevail however agreed that there was no likelihood of porosity occurring to the northeast of the reef and agreed with Board Staff that the removal of Tract 1, Lot 1, Concession II, Camden Township, owned by the Wallaces, would in no way jeopardize the integrity of the Chatham Pool.

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2.4.5 The proposed boundary of the DSA follows existing Tract and Lot lines so that future drilling prospects outside of the storage area will not be adversely affected.

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2.4.6 CanEnerco stated that it was prepared to assume the technical and financial risk of not including the 50 acres of the Marchand property within the boundary of the DSA. The exclusion of this property would reduce the buffer zone between the edge of the Guelph formation and the boundary of the DSA to 50-60 metres.

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3. BOARD FINDINGS AND RECOMMENDATIONS

3.0.1 The Board finds that it is in the public interest that the Chatham Pool be designated as a gas storage area. The characteristics of the Pool as demonstrated by the geological evidence, i.e., its porosity, permeability and the integrity of the cap rock, make the Pool suitable for designation as a gas storage area. The Board also recommends in its E.B.R.M. 109 Report to the Minister of Natural Resources that CanEnerco be granted the requested well drilling permits. However, any orders of the Board with regard to the other Applications are dependent upon the LGIC approving the Board's recommendation for designation of the storage area.

71

3.0.2 The Board notes that CanEnerco holds the gas storage rights and the P& NG rights to all the lands in question, save the one acre property held by the Wallaces in Lot 1, Concession II, Camden Township and the 50 acres held by Mrs. Mary Marchand in Lot 18, Concession XI, Chatham Township. The Board finds that the area proposed by Mr. Trevail for designation as the Chatham Pool is appropriate with the exception of Tract 1, Lot 1, Concession II, Camden Township, which includes the Wallace property. The Board finds that those lands are not necessary for the protection of the Guelph reef given the absence of any detected sucrosic dolomite to the northeast of the reservoir. With the exclusion of this Tract from the designated storage area the minimum distance from the reservoir formation to the boundary in the northeast will be reduced from 415 metres to 200 metres, which is considered to be adequate.

72

3.0.3 The only contested issue respecting the proposed designated storage area is with regard to the 50 acres of Mrs. Marchand's property situated in the northwest quarter (Tracts 2 and 3) of Lot 18, Concession XI, Chatham Township. Mrs. Marchand wishes her property to be excluded from the proposed designated storage area. Having noted Mr. Trevail's evidence, the Board is concerned about the possible communication between the porous formation located under part of Mrs. Marchand's property and the storage pool. The Union-Chatham #38 well is located over this formation and has previously yielded a "gas show". This well is located in an area where reef debris typically occurs, adding to the possibility of porosity occurring within the A1 carbonate formation. For this reason the Board finds that both Tracts 2 and 3 in the northwest quarter of Lot 18, Concession XI, Chatham Township shall be included within the boundary of the DSA. Exclusion of these lands would result in a buffer zone that may be inadequate and pose a risk to the integrity of the Pool.

Was page 14 73

3.0.4 Having carefully reviewed Mrs. Marchand's concerns and having weighed her private interest against the public benefits of developing the Pool as a storage pool; the need to protect the integrity of the geological formation; and the interests of other affected landowners, the Board finds that it is in the public interest to include the Marchand property in the DSA.

74

3.0.5 The Board therefore recommends that the area as described in the metes and bounds description contained in Appendix A should be designated as the gas storage area of Chatham 7-17-XII Pool.

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3.0.6 The Board recognizes that inclusion of the 50 acres belonging to Mrs. Marchand within the area to be designated, effectively expropriates the gas storage rights on these two tracts in favour of

76

CanEnerco. However, it appears from the representations of Mrs. Marchand's counsel that her concern was to retain the ability to exercise her mineral rights by drilling a gas well on her property. Regardless of whether the LGIC accepts the Board's recommendation to include her 50 acres in the DSA, her exercise of these rights is restricted, as any permit to drill application she might make to the Minister of Natural Resources would be referred to the Board. Before granting leave to drill, the Board would have to be satisfied that such drilling would not compromise the integrity of the storage pool.

- 3.0.7 Mrs. Marchand must be compensated for the loss of her storage rights on the 50 acres. Should the Chatham pool be designated as a gas storage area, the Board will require that Mrs. Marchand be offered the same amount of compensation per acre per annum that have been offered for the gas storage rights and accepted by the other lessors. This direction is without prejudice to any application brought to the Board under section 21(3) of the Act for a determination of compensation. Was page 15 77
- 3.0.8 Based on the evidence and submissions presented at the hearing and the Board's findings contained herein, the Board recommends to the Lieutenant Governor in Council that: 78
- the Chatham 7-17-XII Pool, as defined in the metes and bounds description attached in Appendix A, be designated as a natural gas storage area, and 79
 - R.S.O. 1990, Reg. 869 [\[12JG8-0:1\]](#) under the Ontario Energy Board Act be amended to reflect this designation. 80

DATED at Toronto, February 4, 1998.

P. Vlahos
Presiding Member

R.M.R. Higgin
Member

F.A. Drozd
Member

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Was Appendix page 1 83

APPENDIX A

**METES AND BOUNDS DESCRIPTION OF THE CHATHAM 7-17-XII
POOL DESIGNATED STORAGE AREA**

ALL AND SINGULAR those certain parcels or tracts of land and premises, situate, lying and being in the Townships of Chatham and Camden Gore, in the County of Kent, Province of Ontario, and being more particularly described as follows:

FIRSTLY: Being composed of the North half of Lot 16, the North half of Lot 17 and the Northwest quarter of Lot 18, Concession XI, in the Township of Chatham;

SECONDLY: Being composed of the South half of Lot 16, all of Lot 17 and all of Lot 18, Concession XII in the Township of Chatham;

THIRDLY: Being composed of the Road Allowance between Concessions XI and XII, in front of Lots 16, 17 and 18, Township of Chatham and the Road Allowance between all of Lot 1, Concessions I and II in the Township of Camden Gore and Lots 17 and 18, Concession XII and part of Lot 18, Concession XI, Township of Chatham;

FOURTHLY: Being composed of the Westerly three-quarters of the South half of Lot 1, Concession II, in the Township of Camden Gore;

which said parcels may be more particularly described as follows:

COMMENCING at the most Westerly angle of Lot 16, Concession XI, Township of Chatham;

THENCE Southeasterly, along the Southwesterly limit of said Lot 16 to the dividing line between the Northwest and Southeast halves of said Lot 16;

THENCE Northeasterly, along the dividing line between the Northwest and Southeast halves of Lots 16, 17 and 18, Concession XI, to the dividing line between the Northeast and Southwest halves of Lot 18, Concession XI;

THENCE Northwesterly, along said dividing line between the Northeast and Southwest halves of Lot 18, to the Southerly limit of the Chatham/Camden Gore Townline;

THENCE Westerly, along the Southerly limit of the Townline, to the Southerly production of the dividing line between the East and West halves of the East half of Lot 1, Concession II, Township of Camden Gore;

Was Appendix page 2 96

THENCE Northerly, along said Southerly production and along the dividing line between the East and West halves of the East half of Lot 1, to the dividing line between the North and South halves of Lot 1, Concession II;

97

THENCE Westerly, along said dividing line between the North and South halves, to the Westerly limit of Lot 1, Concession II;

98

THENCE Southerly, along the said Westerly limit and its Southerly production to the Southerly limit of the Chatham/Camden Gore Townline;

99

THENCE Westerly, along said Southerly limit of the Townline, to the Northeasterly limit of Lot 16, Concession XII, Township of Chatham;

100

THENCE Southeasterly, along said Northeasterly limit of Lot 16, to the dividing line between the Northwest and Southeast halves of Lot 16, Concession XII;

101

THENCE Southwesterly, along said dividing line between the Northwest and Southeast halves, to the Southwesterly limit of Lot 16, Concession XII;

102

THENCE Southeasterly, along said Southwesterly limit of Lot 16 and its production Southeasterly across the Road Allowance between Concessions XI and XII, to the point of commencement.

Was preliminary page 1 1
E.B.O. 201/E.B.L.O. 263

2
IN THE MATTER OF the Ontario Energy Board Act
[12JF7-0:1]. R.S.O. 1990, Chapter O.13;

3
AND IN THE MATTER OF an Application by CanEnerco
Limited for authorization to inject gas into, store gas in, and
remove gas from, the Chatham 7-17-XII Pool in Chatham and
Camden Townships, Kent County;

4
AND IN THE MATTER OF an Application by CanEnerco
Limited for leave to construct natural gas pipelines and other
facilities in Chatham and Camden Townships.

5
BEFORE: P. Vlahos
Presiding Member
R.M.R. Higgin
Member
F.A. Drozd
Member

6
DECISION WITH REASONS

7
February 4, 1998

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APPENDICES

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Appendix A Conditions of Approval

Authorization to Inject, Store and Remove Gas - Chatham 7-17-XII Pool -
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Appendix B Conditions of Approval

Leave to Construct NPS 6 Lines - Chatham 7-17-XII Pool - E.B.L.O. 263

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1. THE APPLICATIONS AND HEARING

1.1 The Applications

1.1.1 CanEnerco Limited ("CanEnerco" or "the Company" or "the Applicant") holds rights to certain oil and gas properties in southwestern Ontario. It currently produces and markets oil and natural gas from seven pools, marketing on average 3,000 Mcf per day of natural gas, or about 1.1 Bcf per year.

1.1.2 By Applications dated June 23, 1997 CanEnerco applied to the Ontario Energy Board ("the Board") for:

- an order of the Board pursuant to section 21 of the Ontario Energy Board Act ("the Act"), authorizing the Company to inject gas into, store gas in, and remove gas from, the Chatham 7-17-XII Pool ("the Chatham Pool", or "the Pool"), and to enter into and upon the lands for such purposes. This Application ("the storage Application") was assigned Board File No. E.B.O. 201.
- an order of the Board pursuant to sections 46 and 48 of the Act, granting leave to construct approximately 5.8 km of NPS 10 line and associated facilities to connect the Pool with the Panhandle Transmission system of Union Gas Limited ("Union Gas"). This Application was assigned Board File No. E.B.L.O. 263 ("the leave to construct Application").

1.1.3 Collectively these will be referred to as the storage and leave to construct Applications.

1.2 The Companion Applications

1.2.1 In addition to the storage and leave to construct Applications, the Company filed for:

- a regulation pursuant to section 35 of the Act, designating as a gas storage area certain lands overlying the Chatham 7-17-XII Pool. This Application was also assigned Board File No. E.B.O. 201.
- permits from the Minister of Natural Resources pursuant to section 23 of the Act, for permits to drill two wells in the Chatham 7-17-XII Pool. This Application was referred to the Board and the Reference was assigned Board File No. E.B.R.M. 109.

1.2.2 The Board's recommendation to the Lieutenant Governor in Council ("LGIC") regarding the designation of a storage area (E.B.O. 201) and the Board's recommendation to the Minister of Natural Resources regarding the requested well drilling permits (E.B.R.M. 109) are dealt with in separate

Board Reports, which are issued concurrently with this Decision. This Decision deals with the Company's storage and leave to construct Applications.

1.3 The Hearing

1.3.1 Following the publication and service of the Board's Notice of Application, dated July 28, 1997, a technical conference was held at the Board's offices on September 16, 1997, attended by representatives of CanEnerco, Board Staff and intervenors. During the conference, discussion took place concerning the appropriate issues for the hearing.

1.3.2 An issues day was held by the Board on September 25, 1997 to hear submissions on several contested issues. The Board subsequently set out the approved Issues List as part of Procedural Order No. 3, dated October 1, 1997.

1.3.3 The hearing of the Applications took place at the Board's offices from December 16 to 18, 1997. An oral summary was presented by Board Staff on December 19, 1997 and written argument-in-chief was submitted by CanEnerco on December 24, 1997. Written arguments from intervenors were submitted January 9, 1998 and written reply argument was submitted by CanEnerco on January 16 and 21, 1998.

1.3.4 The following parties and their representatives appeared at the hearing:

CanEnerco Limited	Peter Budd
Board Staff	Jennifer Lea
The Consumers' Gas Company Ltd("Consumers Gas")	Fred Cass
Union Gas Limited	Douglas Sulman
Mrs. Mary Marchand	Robert Marchand
Kent County	John Ferguson

1.3.5 CanEnerco called the following Company personnel as witnesses:

Robert Chenery	President and CEO
Phillip Walsh	Vice-President, Corporate Development

John Thomson General Manager, Lands and Contracts

Joe Gorman Manager, Gas Supply Operations

1.3.6 In addition, CanEnerco called the following consultants to provide evidence:

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Robert Trevail President, Orion Resources Consulting Ltd.

Donald Corbett Water and Earth Science Associates Limited
("WESA")

1.3.7 Union Gas called the following employees as witnesses:

Was page 4 42

43

Gary Black General Manager, Marketing and Sales, Storage and
Transportation

Lyn Edwards Manager, Marketing and Sales

1.3.8 In addition, Mr. John Ferguson, County Engineer, County of Kent, testified concerning
CanEnerco's proposed use of the County Road 15 road allowance for constructing the NPS 10 line.

44

1.3.9 A complete record of the proceedings, together with all exhibits, is available for public inspection
at the Board's offices.

45

1.3.10 While the Board has considered all the evidence and submissions, this Decision summarizes only
those portions of the record that the Board considers necessary to support the conclusions reached
with respect to the Company's request for storage rights and leave to construct the NPS 10 line
and associated facilities. The Board's findings are set out in Chapter 5 [165].

46

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2. AUTHORITY TO INJECT, STORE, AND REMOVE GAS

2.0.1 This chapter deals with CanEnerco's evidence in support of its request to inject gas into, store gas in, and remove gas from, the Chatham 7-17-XII Pool. The areas discussed are:

- The Chatham 7-17-XII Pool

- Required Facilities

- Landowner Matters

- Regulatory Matters

2.1 The Chatham 7-17-XII Pool

2.1.1 CanEnerco currently does not own or operate any gas storage. It is a producer of oil and gas. Because of certain legislative restrictions on the sale of gas inside Ontario, CanEnerco sells its gas to marketers at points outside the Ontario border. CanEnerco intends to use the Chatham Pool to inject and store its own gas during periods of low gas prices and to withdraw the gas when the sale price can be maximized. The gas to be injected will initially come from CanEnerco's Ontario operations. Gas may also be sourced from the Company's planned western Canadian production and possibly from purchases from third parties. It is not part of CanEnerco's current business plan to offer storage services to third parties.

2.1.2 The total cost of the proposed project was estimated by CanEnerco at \$8 to \$10 million. The Company also provided aggregate cash flow projections from its operations for the next two years.

2.2 Required Facilities

2.2.1 Currently there are two producing wells in the Chatham 7-17-XII Pool - Chatham #2 and CanEnerco #1. Two new wells are being proposed - CanEnerco #4 and CanEnerco #5 (CanEnerco #2 and #3 are oil wells in other CanEnerco fields). The proposed wells and the existing CanEnerco #1 well will be used as injection/withdrawal wells. The existing Chatham #2 well may be used both as an injection/withdrawal well and a Guelph observation well. The immediate plan is to use the Pool as a seasonal storage facility with deliveries of up to 15 MMcf/d using the existing NPS 3 line to Union Gas' Tupperville Station. With a proposed NPS 10 line connected to Union Gas' system, the Pool could deliver up to 39 MMcf/d. To operate the Pool as a storage facility, two 160 metre NPS 6 lines will tie the wells into the upgraded central compression and dehydration facility.

DECISION WITH REASONS

2.2.2 Issues relating to the proposed NPS 10 line and the NPS 6 lines and the upgraded compressor station are discussed in Chapter 3 [81].

2.3 Landowner Matters

2.3.1 At the time of the hearing, CanEnerco held the petroleum and natural gas ("P&NG") rights and the gas storage rights for all of the lands within the Unit Operating Agreement that comprise the Chatham 7-17-XII Pool ("unit area"). These rights were purchased from Malahide Petroleum Ltd., 748160 Ontario Inc., and Raen Petroleum Corp. CanEnerco also acquired certain additional gas storage leases within the proposed Chatham 7-17-XII designated storage area ("DSA"). CanEnerco was not able to acquire the P&NG leases or storage rights of two properties outside the unit area but within the proposed designated storage area. The Board also deals with this matter in its E.B.O. 201 Report to the LGIC.

2.3.2 Mr. Trevail, CanEnerco's consulting geologist, was concerned that a gas show reported in the drilling of Union-Chatham No. 38 well, located in Tract 3, Lot 18, Concession XI, Chatham Township, which is part of the property owned by Mrs. Mary Marchand, now capped, might indicate communication with the reservoir. He therefore recommended that the northwest quarter of Lot 18, Concession XI, Chatham Township, be included within the boundary of the DSA, even though this area was not included in the unit area for gas production.

2.3.3 After receiving Mr. Trevail's geological report, which established the boundary of the proposed DSA, CanEnerco attempted to obtain the P&NG leases and gas storage leases for the Marchand property. It was not successful.

2.3.4 Under the existing gas storage leases, the annual lease payment is \$5 per acre. Under gas storage operations, CanEnerco has offered to increase the rate to \$52 per acre per year to be consistent with current industry practices.

2.3.5 CanEnerco indicated that if only a portion of a landowner's property is included in the DSA, the balance of a landowner's land abutting and adjoining the DSA will be compensated at the same level as that in the DSA.

2.3.6 CanEnerco offered to compensate the landowners for the residual gas, the level of which would be determined by an independent evaluator as of the date of the initial gas injection. CanEnerco's initial offer was 12.5% of an approximate price of \$2.70 per Mcf, on a cash basis. The 12.5% royalty rate is stipulated in all applicable leases. Upon request by certain landowners, an option was presented to compensate landowners for their 12.5% of the gas on the basis of the market price. Under this option, the Company would act as agent to sell the gas when requested by the lessor. The majority of the affected landowners have agreed to this option. They will provide CanEnerco with notice on the 15th of the month prior to the month in which they want their gas sold.

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2.4 Regulatory Matters

2.4.1 A major issue in the hearing was whether CanEnerco, if successful in its application, will be a storage company as defined under the Ontario Energy Board Act. The definition section of the Act states:

"storage company" means a person engaged in the business of storing gas.

2.4.2 As noted earlier, CanEnerco intends to use the Chatham Pool as storage facility for its own gas. CanEnerco stated that it will not provide any storage space or related services to third parties and, in this regard, agreed to the following condition:

CanEnerco undertakes to use the Chatham 7-17-XII Pool only for the storage of gas which it has produced or purchased and owns. The Pool shall not be used for the storage of gas owned by parties other than CanEnerco. CanEnerco shall not engage in any transaction that has the effect of providing storage services for any other party, unless the Board has approved a storage contract for that purpose under section 22(2) of the Ontario Energy Board Act.

2.4.3 The Company acknowledged that, in the event that it receives approval for storage contracts under section 22(2) of the Act, it would be a storage company subject to all other applicable sections of the Act.

2.4.4 CanEnerco's position was that it is not a storage company. CanEnerco also stated that it would prefer to be found a storage company and have its Application approved rather than have it denied.

2.4.5 Union Gas' witnesses advanced the position that CanEnerco will be a storage company if it is successful in its Applications. They suggested that the Board be guided by the recommendations of the Langford Report, circa 1963, regarding gas storage in the province.

2.4.6 The Langford Report made the following recommendations:

- The right to develop and operate storage areas should be granted only to experienced and competent companies.
- The use of storage facilities should be placed on a priority basis with the distributing companies having first call.
- Storage rights in Ontario should remain the jurisdiction of the province.

- Storage rights in Ontario should be used primarily for the people of Ontario.

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These statements were endorsed by the government at that time through a statement in the House
by the then Minister of Energy.

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3. LEAVE TO CONSTRUCT

3.0.1 This chapter sets out CanEnerco's evidence in support of its request for leave to construct. The specific areas discussed are:

- The NPS 10 Line
- The NPS 6 Lines
- The New Compressor
- Landowner Matters

3.1 The NPS 10 Line

3.1.1 Currently, CanEnerco's produced gas from the Chatham Pool ties into the Union Gas system via an NPS 3 line at the Tuppersville Station, some 2.5 kilometres from the Chatham Pool. The current Rate M13 contract with Union Gas specifies a one-direction flow rate of up to 4 MMcf/d. At the time of the hearing, negotiations were under way for a bi-directional flow of up to 15 MMcf/d. This would require service under a different rate arrangement for which Union Gas must apply for Board approval.

3.1.2 According to CanEnerco, the planned utilization of the Pool for peak storage would require a bi-directional flow of up to 40 MMcf/d. The Company plans to accommodate this level of flow by building an NPS 10 line from the compressor/dehydration station to a connect point in Union Gas' Panhandle Line, a distance of some 5.8 kilometres. The majority (5.4 kilometres) of the line length would run along the northern part of the road allowance of County Road 15. A schematic (not to scale) of the proposed NPS 10 route is shown in Figure 1.

3.1.3 The potential tie in point for the NPS 10 line had not yet been finalized and the discussions with Union Gas were still only at the exploratory stage. Both CanEnerco and Union Gas witnesses acknowledged that there are operational issues associated with moving the Chatham Pool volumes to and from the Panhandle system.

3.1.4 The Company stated that NPS 10 represented a larger size of pipeline diameter than required for the proposed project, but noted that the larger size would allow for the use of this line in the future by other potential storage projects in the area.

3.1.5 The proposed NPS 10 route is one of two routes studied by WESA, the Company's environmental consultant. The other route is also along County Road 15 but ends at the existing Tuppersville Station connection point. While the two routes have similar, though minor, environmental, socioeco-

nomic and physical constraints, WESA recommended the Tupperville route because of the shorter length.

- 93
- 3.1.6 Mr. Ferguson, Kent County's Engineer, testified that the County was concerned that the right-of-way width of County Road 15 was constrained and that the County might not be able to accommodate CanEnerco's request. Mr. Ferguson indicated that the County would want to ensure that projects that are municipal responsibilities take precedence over other projects that are not municipal responsibilities. He also indicated that there is a potential water pipeline project, which would require use of the right-of-way on County Road 15. Mr. Ferguson stated:

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we would be very distressed if we faced that the [Ontario] Energy Board had given leave to construct a proposal for a 10-inch transmission line that presumed that its location would be within [the County Road 15] public right-of-way. We would be in a, if not legally compelling obligation to accommodate, most definitely we would be under a very strong moral suasion to accommodate ...

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- Was page 14 96
- 3.1.7 Following questioning about the possibility of utilizing the existing NPS 3 right-of-way space, from the Chatham Pool to the Tupperville Station, CanEnerco testified that it would be willing to remove the existing line to help accommodate the running of the NPS 10 line through that portion of County Road 15. The existing line only extends to the Tupperville Station, which is approximately half way to the Panhandle Line.

- 97
- 3.1.8 The pipeline construction specifications were provided to the Board as well as other relevant design and safety codes. The Company also noted that all road crossings and municipal drains adjacent to the road would be bored. The construction of the line will take place in the summer to reduce construction costs and to minimize environmental impacts because of the drier weather conditions. The Company acknowledged that the necessary permits to complete all crossings had not yet been sought, but would be obtained. The Company agreed to certain construction conditions proposed by Board Staff.

3.2 The NPS 6 Lines

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- 3.2.1 As shown in Figure 1, two new 160 metre NPS 6 lines are being proposed to connect the injection/withdrawal wells to the compressor/dehydration facility. The same design criteria and specifications applicable to the NPS 10 will be applied for the NPS 6 lines. However, the size of the header line has not yet been determined. The choice of location for the lines is based primarily on the effective use of existing severances and minimal impact on agricultural drain tile systems. WESA's environmental analysis did not cover the proposed NPS 6 lines. However, CanEnerco testified to the various environmental considerations associated with the lines.

3.3 New Compressor

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3.3.1 The existing 400 horsepower compressor has been removed and will be replaced by two new units totalling 1,600 horsepower. The first 1,000 horsepower natural gas driven reciprocating unit has been ordered. The design will be based on a maximum operating pressure of 7,245 kPa. The compressor facility will be designed with a fully automated alarming capability and shutdown sequence. It will be operated from a 24-hour on-site gas control facility currently being designed. Associated facilities for measurement and flow regulation will be updated. The Company stated that the compressor facility will meet or exceed the construction requirements in the applicable regulations.

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3.3.2 The Company stated that it is working with the vendor who is also working with CanEnerco's engineering firm to ensure that sound emissions conform with the Ministry of Environment standards. The Applicant noted that it did not receive any complaints from landowners relating to its plans for the compressor station. The Applicant also indicated that the placement of area lighting is directed inwards on the site, which would minimize any glare.

Was page 15 102

3.4 Landowner Matters

103

3.4.1 There is only one landowner (Mr. and Mrs. Park) whose property will be crossed by the proposed NPS 10 line. The landowner was offered \$1,000 per line kilometre per year. The balance of the proposed route is along the municipal right-of-way.

104

3.4.2 The compressor station and the NPS 6 lines will be located entirely on lands owned by Mr. and Mrs. Park. There is currently a permanent road ending at the existing compressor station. The existing compressor site will be enlarged from 30 metres by 60 metres to 44 metres by 68 metres, to comply with the operating standards under the new Oil, Gas and Salt Resources Act. A written agreement had not yet been entered into with the landowner concerning the enlargement, but CanEnerco testified that it had a verbal agreement from Mr. Park to revise the existing agreement. CanEnerco has offered \$500 per acre per year for the use of the lands.

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3.4.3 The Company indicated that it has and will continue to involve landowners in activities respecting their land.

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4. POSITIONS OF THE PARTIES

4.1 CanEnerco - Argument-in-Chief

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4.1.1 With regard to the issue whether CanEnerco is a storage company, CanEnerco's argument-in-chief centred around the notion that, although certain aspects of its operations as a "person" will be regulated by the Board, it is not conducting business as a storage company. It pointed out that it will not be engaging in the business of storage; storage will be a cost centre, not a profit centre for the Company. In that respect, CanEnerco maintained that it is fundamentally different from, for example Union Gas, which offers storage space and storage services to third parties.

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4.1.2 With respect to the other issues, CanEnerco's argument-in-chief provided an overview of its evidence and testimony and urged the Board to grant its requests.

111

4.2 Mrs. Marchand

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4.2.1 The stated purpose of Mrs. Marchand's intervention was to express concern about the Company's proposal to include 50 acres of her land in the designated storage area. She was represented at the hearing by her son, Mr. Robert Marchand.

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4.2.2 Following the oral hearing, Mrs. Marchand retained Mr. R.G. Robertson of the law firm Kee & Robertson as counsel to submit argument.

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4.2.3 Mr. Robertson argued for the reopening of the hearing on the grounds that Mrs. Marchand was misled by the Applicant concerning the inclusion of the Marchand property in the DSA and for the purpose of adducing further evidence as to residential development in the area.

Was page 18 115

4.2.4 In the alternative, Mr. Robertson argued for the exclusion of the Marchand property from the DSA and for CanEnerco to provide for compressor construction features that give relief to inhabitants of the area from the effects of light, smell and noise.

116

4.2.5 In the further alternative, Mr. Robertson requested that a hearing take place "regarding compensation for inclusion of the Marchand lands including compensation for gas captured from the Marchand lands by operation of the pool".

117

4.2.6 Mr. Robertson noted that the Marchand property was never part of the unit area and it should not therefore be encumbered in a designated storage area. Alternatively, if the Board determines that the lands should be within the designated storage area, since no compensation had been received in the past, the offer of \$52 per acre per year was inadequate.

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- 119
- 4.2.7 Mr. Robertson stated that CanEnerco did not require the Marchand property for the DSA and that its inclusion was "out of abundance of caution" by Mr. Trevail, the geologist called as a witness by CanEnerco. He noted that there is no factual evidence either of communication or of no communication with the Union-Chatham No. 38 well on the Marchand property. If there is communication, then the Applicant has been "sucking gas" from under the Marchand lands for several years. According to Mr. Robertson, it would be relatively easy to uncap the well that is situated on the Marchand property and do the required testing.
- 120
- 4.2.8 Mr. Robertson noted that Regulation 916 promulgated under what was known as the Petroleum Resources Act, now the Oil, Gas and Salt Resources Act, prohibits the completion or service of any well within 1.6 kilometres of a gas storage area if the completion or servicing of that well is likely to create communication with the gas reef situated within the designated storage area. Mr. Robertson stated that this puts Mrs. Marchand in an untenable position; whether the Marchand lands are included or excluded from the DSA, the Applicant will obtain the desired result in that neither Mrs. Marchand nor anyone else will be able to take advantage of the mineral rights on the Marchand lands.
- Was page 19 121
- 4.2.9 Mr. Robertson termed the environmental report filed by WESA deficient, noting that:
- 122
- The report indicates thirty water wells in the study area, but draws no conclusion as to the effect of the proposed storage area upon these wells; one of those wells, which is 60 feet deep, is located on the Marchand property.
- 123
- The report makes no reference to existing dwellings, either within the DSA or in the general vicinity of its boundaries; Mr. Robertson provided a map sketching out twenty-one dwellings.
- 124
- There is nothing in the report that would constitute a social impact study.
- 125
- 4.2.10 Mr. Robertson also expressed concern about the storage of natural gas containing hydrogen sulphide (H₂S) and submitted that this be the subject of a further study. According to the evidence, H₂S is an odourizing compound with a rotten egg smell. He submitted that, in the alternative, a wind screen be constructed over a certain area.
- 126
- 4.2.11 Mr. Robertson noted that the new compressor's horsepower will be four times larger than that previously in place and there will be disturbance of the neighbouring residents. He stated that CanEnerco's evidence that Mr. Park wished to have only a minimum of new physical features to control noise, lighting and smell relating to the compressor should come as no surprise, since Mr. Park does not live near the proposed DSA.
- 127
- 4.3.12 Mr. Robertson stated that, in the event a DSA is recommended that includes the Marchand lands, a proposed Board Staff condition limiting CanEnerco's activities in the Marchand property is satisfactory to Mrs. Marchand.

Was page 20 128

4.3 Union Gas

4.3.1 Union Gas stated that, in determining whether the Chatham Pool should be designated as a storage pool, the Board should weigh the evidence exclusively on whether the underground reservoir has the necessary characteristics for a gas storage area and, therefore, should be protected; this determination should be made irrespective of the other Applications before the Board.

129

4.3.2 Union Gas submitted that, in order to provide an appropriate buffer for the reef, the Marchand property must be included in the DSA. Union Gas noted that the inclusion of the property would not have the effect of expropriation of the mineral rights of the Marchand property; the Marchands would continue to maintain their mineral rights, but any application for well drilling permits within the DSA would have to be referred by the Minister of Natural Resources to the Board. Union Gas also pointed out that, in light of the possibility of drilling by the Marchands, inclusion of the property in the DSA is imperative to ensure that such drilling will not affect the integrity of the storage pool. Union Gas noted that the Marchands will be compensated for the infringement in the same manner as other storage lessees. Union Gas also noted that it is not sufficient for CanEnerco to say it is willing to take the risk and remove the Marchand property from the DSA; the DSA boundaries should be determined on the basis of geology, not surface features.

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4.3.3 With respect to the Applicant's request for storage rights under section 21(1), Union Gas suggested that the evidence supporting the request fell short of the standard typically provided to the Board. Union Gas noted:

131

- CanEnerco's statements that it has already demonstrated a high level of competence in managing oil and gas operations or its practices are in accordance with industry standards and it enjoys good corporate relations with its suppliers and landowners have not been backed with supporting evidence.

132

- CanEnerco has not provided evidence in support of its statement that it can economically operate the Pool at deliveries and withdrawals of 15 MMcf/d for 150 days or of the market viability or acceptance of its plans; without a demonstration of need or market acceptance, it may be difficult for the Board to determine that development of the Pool is in the public interest at this time.

133

- CanEnerco is unable to tell the Board whether it will operate the Pool as a base load pool or as a peaker because it is "not yet armed with sufficient information"; if so, neither is the Board.

Was page 21 134

- No evidence was provided on the Applicant's business plans regarding gas purchasing partnerships or acquisitions or transportation arrangements for gas obtained outside Ontario.

135

- CanEnerco provided little data on the public record for the Board to determine its financial soundness.

136

DECISION WITH REASONS

- 137
- 4.3.4 With respect to the proposed NPS 10 line and the NPS 6 lines, Union Gas noted that it is difficult to find a complete record of evidence. Specifically, Union Gas noted that:
- 138
- No environmental assessment was provided for the gathering lines.

139

 - The size of the header line has not been determined.

140

 - Based on the testimony of Mr. Ferguson, the Kent County Engineer, the location of the NPS 10 line is in question and no alternative routing was presented.

141

 - CanEnerco's discussions with Union Gas have been on connecting the proposed pipeline at the existing Tuppersville Station, not at the Panhandle Line.

142

 - Mr. Gorman, the project manager, was not aware of the permits required and Mr. Corbett, the environmental consultant, had not applied for permits before and could not provide the Board assistance on the timing of acquiring permits.
- Was page 22 143
- 4.3.5 Union Gas submitted that it is difficult for the Board to determine whether the NPS 10 line will ever be constructed as proposed and that the deficiencies noted may make it difficult for the Board to determine that granting leave to construct is in the public interest. Union Gas stated that, if the Board is not satisfied with the evidence regarding the proposed NPS 10 line, it need not determine the other issues related to the section 21 Application since there cannot be an efficient operation if the gas cannot get to and from the Pool in sufficient volumes. In that event, it suggested that the Board could require CanEnerco to file further and better evidence on the NPS 10 line routing and connection to the Panhandle Line, and on the NPS 6 lines; it would not be necessary to dismiss the storage and leave to construct Applications, but rather the Board could prescribe a time schedule for further review.
- 144
- 4.3.6 With respect to the issue of whether CanEnerco, if its Applications are approved, will be a storage company, Union Gas argued that once a person injects gas into a designated formation for purpose of withdrawing the gas pursuant to a Board order, that person is engaged in the business of storing gas; the words "engaged in the business of storing gas" ought to be given their clear and simple meaning without semantical contortion. Union Gas argued that CanEnerco's assurances that it will not enter into storage business are meaningless given the "semantical approach taken by the Applicant".
- 145
- 4.3.7 According to Union Gas, the public interest demands oversight of the use of the Chatham Pool and requires that there be a further application under section 19 of the Act for rate base and rate structure matters before the Pool is put into use. Union Gas suggested that regulation of CanEnerco under section 26 is essential, in that it will prevent an entrepreneur from improving the value of a potential storage field and "flipping it" to a third party without Board review.

146
4.3.8 Union Gas noted that, in the Oil Springs East case (E.B.O. 167), ICG Utilities Ontario was granted an injection and withdrawal order and, until recently, only stored its own gas and "never disputed that it was a storage company for the purposes of the Act".

147
4.3.9 Union Gas further suggested that, if the recommendations of the Langford Report and the Board's previous decisions on the basis of these recommendations are no longer applicable as the guiding principles, the Board should indicate this in its Decision so that the industry may govern itself accordingly.

4.4 Consumers Gas

Was page 23 148

149
4.4.1 Consumers Gas argued that there is no support in the evidence and the law for CanEnerco's position that, if the Company's Applications are approved, it will not be a storage company. It submitted that, if CanEnerco receives authorization to inject, store and withdraw gas from a designated storage area, it is a storage company since it will be engaged in storing gas for business purposes, not for some non-business purpose. If it had been intended that certain provisions of the Act would apply only when a storage operator stores gas owned by others, it would have been a "simple matter of the drafter of the statute to say so in plain words".

150
4.4.2 Consumers Gas noted that, if the Board sees fit to treat CanEnerco's storage Application as an opportunity to move towards lighter regulation of natural gas storage, the Board should not afford any treatment to CanEnerco that is not prepared to extend to all other storage operators, whether they be existing or new.

151
4.4.3 Consumers Gas pointed out that the Act defines a transmitter as "a person who carries a hydrocarbon by a transmission line" and if CanEnerco is successful in its Application for the NPS 10 line, it will be a transmission company with the result that it will be under the regulatory authority of the Board.

4.5 CanEnerco - Reply Argument

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4.5.1 CanEnerco submitted that the relief sought by Mrs. Marchand should be denied because:

- 154 • It is unfair to the Applicant for a hearing to be reopened because an intervenor wishes to change the extent and management of its intervention based on the evidence adduced.

- Mr. Trevail's evidence recommending inclusion of Mrs. Marchand's 50 acres was received by Mrs. Marchand and her son represented her at the hearing and asked questions.

Was page 24 155

- It is very unlikely that new evidence would be introduced which would have any material impact on the geological evidence already on the record.

156

DECISION WITH REASONS

- The issues of residential development and effects on water wells were examined to the extent necessary and as fully as the parties desired during the course of the proceeding; counsel to Mrs. Marchand has not raised a justifiable issue sufficient to cause a reopening of the proceeding. 157
- 4.5.2 With respect to the routing of the NPS 10 line, CanEnerco disagreed with Union Gas's assertion and characterization of Mr. Ferguson's testimony on problems with the Road 15 right-of-way, pointing out that Mr. Ferguson stated that "they're things that can be dealt with". 158
- 4.5.3 In response to Union Gas's criticisms of other "deficiencies", CanEnerco noted that no formal environmental assessment is required for gathering lines and the size of the header cannot be determined until the final station design has been confirmed by CanEnerco's engineering consulting firm. 159
- 4.5.4 With respect to the storage company issue, CanEnerco argued in reply that the drafters of the legislature recognized the distinction that not all persons who store gas are storage companies. It pointed out that if the Act intended that all such persons be deemed storage companies, the Act would state so. It also pointed out that, for Union Gas to be correct in saying that once a person is granted storage rights in a designated storage area under section 21 of the Act it is a storage company, the definition section would have to be rewritten to define storage company as any person who has made an application under section 21. 160
- 4.5.5 CanEnerco reiterated that its business is distinctly different from the utilities' unbundled storage rate offerings and this was acknowledged by Union Gas' witness. It submitted that the utilities are trying to get the Board into a simplified argument as to the meaning of words in the Act, rather than focussing on the statutory mechanisms and distinctions between storage companies and persons. 161
- 4.5.6 In response to Union Gas' submission regarding the similarity of CanEnerco's proposed storage business to that of ICG Utilities Ontario, CanEnerco referred to the evidence in the E.B.O. 167 proceeding and pointed out that ICG could have sold excess storage. Was page 25 162
- 4.5.7 The Applicant stated that Union Gas' critique of CanEnerco's "corporate youth" must be balanced with a review of the qualifications of its employees and officers. It made reference to St. Clair Pipelines, an affiliate of Union Gas, as an example of a company without previous corporate history that was given authorization to operate its first high pressure pipeline under a river. 163

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5. BOARD FINDINGS

5.0.1 Certain parts of the evidence and arguments described also relate to the Company's request for designating the Chatham 7-17-XII Pool as a storage area and its request for permits to drill the proposed wells. In the separate Reports to the Lieutenant Governor in Council and to the Minister of Natural Resources, the Board makes specific findings regarding the Pool's geology and suitability as a storage area, the recommended boundaries of the proposed storage area, reservoir engineering matters, environmental impacts, landowner compensation and other landowner considerations. These will not be repeated here.

166

5.0.2 The Board's findings below are set out under the following:

167

- Storage Rights [172]
- Leave to Construct [183]
- Mrs. Marchand [198]
- Regulatory Matters [211]

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5.1 Storage Rights

5.1.1 With respect to CanEnerco's application under section 21(1) of the Ontario Energy Board Act, the Board must determine whether to grant authorization to CanEnerco to inject gas into, store gas in, and remove gas from, a designated gas storage area.

173

5.1.2 The Board's determination whether to grant storage rights is normally based upon satisfactory evidence that the public interest is protected and advanced by the granting of such rights. Public interest considerations in this context include the determination of a justifiable purpose for the proposed storage project, sound technical and environmental considerations, and satisfactory arrangements with agencies and affected landowners. In the case of utilities, other considerations normally include financial implications and ratepayer impact.

Was page 28 174

5.1.3 The Board notes that, based on current technical information about the Pool's cap rock, the Company is not absolutely certain to what extent the Pool can be delta pressured and therefore whether it is capable of delivering the planned 39 MMcf/d. This determination depends on further information to be obtained once the drilling of the wells is completed and a core sample is analyzed. In that regard, the Company was not certain of the economics of using the Pool only as a seasonal facility. The Board cannot, on the basis of the evidence adduced, determine the profitability of the seasonal operation.

175

DECISION WITH REASONS

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5.1.4 However, in the circumstances of this case, this absence of certainty is not a reason to deny the project. Should the Pool be utilized only as a seasonal facility for technical reasons, the economic risk of this project falls entirely with the Company's owners. The Board may have taken a different view if the financial uncertainty impacted utility ratepayers. In any event, there is no evidence to suggest that the Pool will not be used to the extent possible from both a technical and economic perspective or that, in view of the technical uncertainties, the Pool's forecast utilization would be enhanced under management by a different entity, such as a utility.

177
5.1.5 As subsequently discussed, the Board denies at this time the Company's request for leave to construct the proposed NPS 10 line. The denial introduces another uncertainty with respect to the Pool's potential utilization level. However, the Board finds that the rejection of the NPS 10 line does not in itself constitute a valid reason for denying the project in its totality. It would not be reasonable to place CanEnerco in a situation where its entire project would depend on Union Gas' commitment or convenience in accommodating CanEnerco's pipeline interconnection plans.

Was page 29 178
5.1.6 In determining whether storage rights be granted, under section 21(2) of the Act the Board must determine whether CanEnerco has made fair, just and equitable compensation offers to the landowners for any gas rights in the designated gas storage area and for any potential damage resulting from CanEnerco's exercise of the granted storage rights.

179
5.1.7 Other than certain issues related to the Marchand property subsequently discussed, the Board finds the necessary leases and agreements pertaining to the use of the lands and mineral rights to be in order. The Board has not received any expressions of concern from any other of the affected landowners, except Mrs. Marchand, concerning compensation. The Board finds the compensation offered by CanEnerco for the use of land rights and for damages to be reasonable and consistent with current industry practices, with the following exception.

180
5.1.8 The Board finds the Company's offer to extend compensation for the unleased portion of landowner acreage that is deemed abutting and adjoining the designated storage area to be unconventional. The Board would have difficulty if such expenses were requested to be included in a regulated utility's cost of service. However, in this case, this is an expense that only affects the Company's owners and the Board does not make a finding in this regard.

181
5.1.9 The Board also notes the unconventional nature of the compensation option for residual gas, but believes that landowner interests are not being compromised given that the option presented was a response to the landowners' request and that each landowner could choose the traditional arrangement. Moreover, all affected landowners are being treated equally, which is an important consideration for this Board.

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5.1.10 On the basis of the above findings, the Board grants CanEnerco the storage rights as requested under section 21(1) of the Act, subject to the conditions set out in Appendix A [247] and other conditions set out elsewhere in this Decision.

Was page 30 183

5.2 Leave to Construct

The NPS 10 Line

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5.2.1 Under sections 46 and 48 of the Act the Board must determine whether to grant CanEnerco's request for leave to construct the NPS 10 line.

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5.2.2 The Board notes that discussions between CanEnerco and Union Gas have centred around the accommodation of CanEnerco's more immediate needs to increase the capacity to flow gas, bi-directionally, at the existing NPS 3 interconnection point at the Tupperville Station. Discussions regarding CanEnerco's proposed NPS interconnection to Union Gas' Panhandle Line are only in preliminary stages. Based on the evidence adduced, it does not appear that Union Gas can physically accommodate the proposed CanEnerco flow of 39 MMcf/d on the Panhandle Line without expansion of this line or at least further study of related operational issues.

186

5.2.3 The Board has noted Mr. Ferguson's statement that Kent County will feel morally obligated to accommodate CanEnerco if the Board grants leave to construct the NPS 10 line, but the Board places considerable weight on the fact, as also stated by Mr. Ferguson, that the County is not legally obligated to accommodate CanEnerco. In the Board's view, there are serious questions whether the Company's proposed route along County Road 15 can be accommodated by the County without the benefit of further consideration and negotiation.

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5.2.4 The Board notes that, as a result of discussion at the hearing, CanEnerco would be willing to utilize the existing County Road 15 right-of-way that currently accommodates its NPS 3 line. However, this matter has not been thoroughly investigated and it appears questionable whether Kent County's concerns can be addressed. For example, the existing NPS 3 line only goes as far as the Tupperville Station which represents approximately half the distance to the Panhandle Line.

188

5.2.5 As for alternative routes, either to the Panhandle Line utilizing easement of private lands, or to Union Gas' main Dawn storage hub, both of which were mentioned during the oral hearing as possibilities, the Board has had no evidence in this hearing about the viability of such options. Clearly, if CanEnerco wishes to pursue these alternatives, a new application would be required and appropriate notices must be served since the route would involve other affected parties.

189

5.2.6 In view of all of the above, the Board concludes that CanEnerco's application for leave to construct the NPS 10 line is premature. It is not in the public interest to grant leave to construct the proposed NPS 10 line without the above noted deficiencies and concerns being addressed. Further, given the nature of the noted shortcomings, and the substantial length of time that may likely elapse, the Board is not prepared to keep the current proceeding open for revised evidence. A new application will have to be made. The Board expects Union Gas to continue working with CanEnerco to find ways to accommodate the use of the Chatham Pool as a peak storage facility.

Was page 31 190

5.2.7 Since the Board denies the request for leave to construct the NPS 10 line, the Board makes no finding on the Company's evidence concerning construction, environmental and landowner matters

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pertaining to that line. However, the Board notes that there were some concerns expressed by Board Staff about certain aspects of the Company's construction specifications and that CanEnerco had agreed to proposed Board Staff conditions regarding this matter.

Associated Facilities

5.2.8 The Board also finds that the balance of evidence indicates that it is not in the public interest to deny the requested leave to construct in its totality. While the construction of the NPS 10 line and the NPS 6 lines are linked in the leave to construct Application, denial of one or more of the components need not result in the denial of the whole.

5.2.9 With respect to the NPS 6 lines, the Board observes that there does not appear to be a concern about the Applicant and Union Gas coming to a suitable arrangement to accommodate the higher (15 MMcf/d) bi-directional gas flow required at the Tupperville Station for the Pool to be used as a seasonal storage facility. In this connection, the Board has noted that Union Gas will likely need to apply to the Board for an appropriate rate.

5.2.10 The Board is accustomed to more formal environmental studies concerning gathering lines. The Board considers the absence of a formal environmental study a deficiency in CanEnerco's prefiled evidence. However, given that this is CanEnerco's first leave to construct application and no substantive issues were raised, the Board will not deny the request because of this deficiency. The Board accepts the Company's testimony regarding its construction plans and the environmental mitigation measures as reasonable. The Board has not identified any landowner compensation issues or any other concerns regarding the construction of the NPS 6 lines. Moreover, the Board has noted that CanEnerco had agreed to abide by the proposed Board Staff conditions of approval relating to the construction of the NPS 6 lines and that these conditions are the same as those that normally apply to the utilities. In future applications, however, CanEnerco should undertake the necessary studies to meet the Board's practice.

5.2.11 The Board finds the Company's evidence relating to the construction of the new compressor satisfactory. Other than certain issues arising from the argument by counsel to Mrs. Marchand, which are dealt with elsewhere in this Decision, the Board has not identified any environmental concerns or other landowner concerns relating to either proposed construction practices or compensation matters.

5.2.12 On the basis of the above, the Board grants CanEnerco leave to construct the proposed NPS 6 lines, subject to the Conditions of Approval set out in Appendix B [257].

5.3 Mrs. Marchand

5.3.1 The Board agrees with the Company that the evidence in the hearing dealt with landowner concerns about noise, construction, appearance and environmental issues relating to the compressor station.

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5.3.2 With respect to odour, it was clarified during the hearing that the odourizing compound agent in the stored gas will be Mercaptans, which is the standard for odourizing residential gas for safety purposes, not H₂S as presumed in Mr. Robertson's argument. With respect to Mrs. Marchand's concerns about noise, CanEnerco must conform with the standards set by the Ministry of the Environment. There is no suggestion that these standards will not be met. As for lighting concerns, the Company's plans are to direct the lights at the compressor site inwards on the site to minimize glare.

Was page 33 201
5.3.3 The Board also agrees with CanEnerco that its testimony addressed its Company policies concerning water wells. The Board notes that other landowners, even those whose properties and dwellings are situated closer to the proposed wells and compressor site than those of Mrs. Marchand, have not expressed any concerns. However, CanEnerco should communicate to the landowners the process it will follow to address concerns during and after the construction phase of the project.

202
5.3.4 With regard to the issue of future potential for residential development raised by Mr. Robertson, the Board notes that notice of this hearing was published in accordance with the Board's normal direction. No party intervened for the purpose of raising the possibility of residential construction, including local governments or interested developers. It would be unfair to the Applicant for the Board to reopen the hearing on such speculative grounds.

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5.3.5 The argument filed on behalf of Mrs. Marchand points out that CanEnerco, in its answer to a Board Staff interrogatory, stated that it was prepared to amend its Application for the DSA to exclude the Marchand property. During the hearing, however, CanEnerco indicated that it was not amending its Application and would seek designation of an area consistent with the recommendations of Mr. Trevail. The Board acknowledges the argument that the interrogatory answer may have misled Mrs. Marchand.

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5.3.6 The Board, in making its recommendations on the boundary of a DSA, must rely on geological evidence, not the position of the Applicant. It does not appear from the Marchand argument that Mrs. Marchand is asking to call geological evidence; in fact the argument states that "Mary Marchand is in no position to refute the [geological] evidence as tendered". Although the Board recognizes that Mrs. Marchand's intervention strategy may have been influenced by the interrogatory answer, in the absence of any evidence contradicting Mr. Trevail, the Board would not change its recommendation. The Board therefore sees no practical purpose in reopening the hearing on this ground.

Was page 34 205
5.3.7 On the basis of all of the above, the Board finds no reasonable or practical grounds to reopen the hearing as requested by counsel to Mrs. Marchand.

206
5.3.8 In its E.B.O. 201 Report to the LGIC, the Board has recommended that Mrs. Marchand's 50 acres be included in the DSA. This inclusion effectively expropriates the gas storage rights on these two tracts in favour of CanEnerco. However, it appears from the representations made on Mrs. Marchand's behalf that her concern was to retain the ability to exercise her mineral rights by drilling a gas well on her property. If the LGIC accepts the Board's recommendation to include her 50 acres, her exercise of these rights will be restricted, as any permit to drill application she might make to

the Minister of Natural Resources would be referred to the Board. Before granting leave to drill, the Board would have to be satisfied that such drilling would not compromise the integrity of the Pool.

5.3.9 Mrs. Marchand must be compensated for the loss of her storage rights on the 50 acres. Should the Chatham pool be designated as a gas storage area, the Board requires that Mrs. Marchand be offered the same amount of compensation per acre per annum that has been offered for the gas storage rights and accepted by the other lessors. This direction is without prejudice to any application brought to the Board under section 21(3) of the Act for a determination of compensation.

5.3.10 Board Staff proposed the following condition concerning the Marchand property:

CanEnerco undertakes not to drill any wells, or construct pipelines, access roads or any other infrastructure on the Marchand property in Lot 18, Concession XI, Chatham Township, unless the registered owner (presently Mrs. Mary Marchand) subsequently decides to execute a gas storage lease agreement with CanEnerco Limited.

5.3.11 The Board notes that CanEnerco and Mrs. Marchand agreed to this condition. The Board finds the proposed condition reasonable and accepts it.

5.4 Regulatory Matters

The Business of CanEnerco

5.4.1 It is clear from the Act that any "person" wishing to use a geological formation (having been designated as a gas storage area) as a gas storage pool must be authorized by this Board under section 21(1). Such authorization provides the person with certain rights regarding the lands included in the designated storage area. It also provides the person with certain responsibilities regarding compensation under section 21(2). Section 21 does not specifically provide for Board jurisdiction for oversight on an ongoing basis.

5.4.2 It is also clear that ongoing Board statutory jurisdiction under section 19 (approval of rates), section 22(1) (empowerment to direct the use of storage if not in full use), section 22(2) (approval of storage contracts), section 26 (approval of sale of assets or amalgamation or acquisition of certain level of shares), section 27(1) (empowerment to prescribe classes of companies with the approval of the LGIC), and sections 58 and 59 (powers of the Board's Energy Returns Officer to collect information) applies only if the person operating a storage pool is a "storage company".

5.4.3 It is less clear from the definition section of the Act whether or not CanEnerco, if it is granted storage rights under section 21(1) of the Act, will become a "storage company", defined in the Act as "as person engaged in the business of storing gas".

DECISION WITH REASONS

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5.4.4 The suggestion was made by Union Gas that CanEnerco will not be different from ICG Utilities Ontario which operated the Oil Springs East Pool for its own needs without providing storage space or services to third parties. However, CanEnerco's argument has persuaded the Board that ICG could offer storage service to third parties. The Board, therefore, finds the two situations to be different and, therefore, not helpful in deciding the issue at hand.

217
5.4.5 The suggestion was made during the hearing that the situation of CanEnerco will not be different from that of Union Gas and Consumers Gas when these companies were regulated as storage companies even though they were not at that time making their storage available to third parties. The significant difference, in the Board's view, is that the utilities' rates were, and still are, approved pursuant to section 19 of the Act, which rates included and include a storage component. Clearly, CanEnerco was not and will not be selling gas within the province as long as current legislative restrictions are in place and section 19 requirements for the Board to set rates do not apply in this case.

Was page 36 218
5.4.6 The Board concludes that, as long as CanEnerco does not provide any storage space or equivalent services to third parties or sell gas within the province, but rather uses its storage as an asset in its production and out-of-province gas sales, CanEnerco is not "engaging in the business of storage". There is merit in CanEnerco's position that it is before the Board as a person requesting certain approvals for gas storage designation and for undertaking certain activities in a designated storage area. The Board concludes that CanEnerco's future business will be that of a gas producer, marketer and storage operator. In addition, by virtue of the proposed operation of the NPS 3 line, CanEnerco will become a transmitter defined in the Act as a "person who carries a hydrocarbon by transmission line". Therefore CanEnerco will be subject to the provisions of the Act applicable to transmitters, including sections 19, 26, 27(1), 58 and 59 referred to previously.

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5.4.7 In light of the above, what remains at issue is the experience and competence of CanEnerco as the storage operator, and the applicability of provincial policy on natural gas storage.

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Competence as a Gas Storage Operator

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5.4.8 In assessing CanEnerco's application for storage rights, it is in the public interest for the Board to ensure that CanEnerco's management has the appropriate experience and competence as well as the financial ability to undertake the proposed project and to ensure that such competence and ability be maintained.

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5.4.9 CanEnerco has been in existence since 1996. Its corporate experience has been in exploration and production of oil and gas. There is no company experience in the gas storage operation. However, the Company's management is qualified and experienced in the geological aspects of the gas business, including storage. The Board finds no evidence to suggest that these individuals are not capable of competently completing the Company's storage plans.

Was page 37 223
5.4.10 With respect to financial ability, CanEnerco's income before taxes, depreciation and depletion allowance was estimated at \$3 million for 1997, and forecast to increase to \$7 million for 1998 and above that level for 1999. CanEnerco's bank line of credit is \$5.9 million. The total estimated

DECISION WITH REASONS

expenditure for the proposed project (including the construction of the NPS 10 line) is \$8 to \$10 million. The Board notes that a portion of this expenditure has been already made. The Board also notes that the estimated annual cost of operating the Pool is \$0.5 million. The Board is satisfied on the evidence that CanEnerco has the financial ability to undertake and complete the proposed project.

Provincial Policy on Natural Gas Storage

5.4.11 The rights granted under section 21 carry certain public interest obligations. Geological formations suitable for storage of gas are a provincial resource and require protection and assurance that they are used in the public interest. The recommendations in the Langford Report and the Government's policy pronouncements endorsing these recommendations are, in the Board's view, valid today. The Board is not aware of any other Government policies or Board practices in the intervening period that would supersede the policies enunciated at that time or would render them inapplicable for the purposes of the present case.

5.4.12 The Board notes from the testimony that CanEnerco itself recognizes that, as a provincial resource, storage must be used in the public interest. The Board also notes that neither Union Gas nor Consumers Gas objected, on principle, to the development of the storage pool by a non-utility.

5.4.13 The Board finds that it is in line with current provincial policy for the Board to ensure that, should, in the future, the Chatham 7-17-XII Pool be required to provide storage services for the Ontario market, it can be made available for this purpose.

5.4.14 This finding may create some uncertainty for CanEnerco's long term plans. The Board appreciates that certainty is crucial to a private enterprise planning the type of substantial investment this project represents for CanEnerco. However, the Board believes that it is possible in the circumstances to meet the objective of allowing CanEnerco to pursue its current business plans without introducing an inordinate degree of uncertainty at this formative stage of CanEnerco's business.

Conclusion

5.4.15 The Board grants CanEnerco the storage rights requested pursuant to section 21(1) of the Act, but grants such authorization for an initial term of five years. The Board believes that granting storage rights to CanEnerco for that initial term represents a fair balance between CanEnerco's current business plans and ensuring that the public interest is safeguarded in the long term.

5.4.16 The Board expects CanEnerco to file an application for renewal or extension of the initial five year term no later than four years from the date of first injection in the Pool. As part of that application, the Board expects CanEnerco to satisfy the Board that continuation of the use of the Chatham 7-17-XII Pool for the purpose of storing its own gas is in the public interest. To the extent that all or a portion of the Pool's capacity would be determined to be needed for the provision of storage services for the Ontario market, CanEnerco may be required to provide such services. In that event, CanEnerco would become a storage company within the meaning of the Act.

DECISION WITH REASONS

5.4.17 The Board recognizes that granting CanEnerco storage rights to be used entirely for the stated purpose will result in CanEnerco not sharing proportionally with the utilities the storage capacity to be made available for the Ontario market. The Board expects that this issue will be addressed at the time CanEnerco applies for renewal or extension of the initial term.

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5.4.18 The Board's authorization for storage rights for the initial five year term is conditional upon CanEnerco's undertaking cited earlier not to engage in the business of storage for third parties or any other activity that would reasonably be viewed by the Board as providing storage services. In this connection, CanEnerco shall file annually by the end of each calendar year with the Board an affidavit by its chief executive officer confirming compliance with the Board's condition. Non-compliance with this condition may, following Board review, result in the termination of the Board's authorization for CanEnerco's storage operating rights in the Pool.

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5.4.19 The Board reminds CanEnerco that, for the duration of the first five year authorization for storage rights, the operating management of the provincial resource represented by the Chatham 7-17-XII Pool must remain within CanEnerco as stated in the Conditions of Approval set out in Appendix A [247]. Moreover, CanEnerco's annual filing with the Board shall report on the qualifications of the Company's personnel as a storage operator and confirm its overall soundness and financial integrity. Any financial information reasonably considered to be confidential may be filed with the Board's Energy Returns Officer.

Was page 39 234

5.4.20 It was suggested at the oral hearing and in Union Gas' argument that a generic review regarding gas storage, similar to the Board's review recently undertaken on gas supply, may be appropriate. The Board appreciates the reasons for such a suggestion, but considers it to be premature to call for such a review at this time on the basis of this case. Should a generic review be warranted in the future, the Board anticipates that CanEnerco will participate actively. In that regard, should substantial changes be made in the way the franchised gas utilities in the Province use their storage assets, the Board anticipates that CanEnerco will approach the Board if the Board's conditions on the Company's storage rights appear to be disadvantageous in a changed storage market structure.

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5.4.21 The Board observes that, in dealing with CanEnerco's applications, parties tended to link the Act's requirements relating to construction and operation of physical assets (such as leave to construct pipelines) with the Act's requirements relating to economic regulation (such as rates and asset transfers). This link was particularly evident in Union Gas' positions. The Board recognizes that such linkages may be the result of the interpretation of the Act as well as Board practice to combine these matters when dealing with regulated monopolies. The Board sees merit in distinguishing between regulation of the construction and operation of physical assets, which may apply to both competitive and monopoly entities, and economic regulation of the assets of monopoly utilities. The Board believes that such a distinction can guide future proceedings under the current Act. As legislative changes to allow further deregulation of natural gas markets are brought forward, there would also be an opportunity to clarify any ambiguities, such as those related to storage companies and transmission lines.

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6. COMPLETION OF THE PROCEEDINGS

6.0.1 In accordance with the Board's findings herein, the Board denies CanEnerco leave to construct the proposed NPS 10 line. 239

6.0.2 In a separate Report to the Lieutenant Governor in Council dated February 4, 1998 (E.B.O. 201), the Board recommends the designation of the Chatham 7-17-XII Pool as gas storage area. 240

6.0.3 Subject to the approval of the LGIC, in accordance with the Board's findings herein, the Board authorizes CanEnerco to inject into, store gas and remove gas from the Chatham 7-17-XII Pool for an initial period of five years, subject to the conditions attached in Appendix A [247] and other conditions set out in this Decision. The appropriate Board Order will be issued once the Ontario Regulation has been filed. Such order shall include these and all other conditions contained in the Board's Decision. 241

6.0.4 Also in accordance with the Board's findings herein, the Board grants CanEnerco leave to construct the two NPS 6 lines, subject to the conditions attached in Appendix B [257]. The Board Order will be issued at the appropriate time. 242

6.0.5 Also in a separate Report to the Minister of Natural Resources dated February 4, 1998 (E.B.R.M. 109), the Board recommends that the request by CanEnerco for permits to drill two injection/withdrawal wells be granted, subject to the area being designated as a gas storage area. 243

6.0.6 No party has applied for a cost award. The Board directs CanEnerco to pay Mr. Robert Marchand an honorarium of \$350 in lieu of a cost award for attending the second day of the hearing. 244

6.0.7 The Board also directs CanEnerco to pay the Board's costs upon receipt of the Board's invoice. 245

DATED at Toronto, February 4, 1998.

P. Vlahos
Presiding Member

R.M.R. Higgin
Member

F.A. Drozd
Member

Appendix A Conditions of Approval

Authorization to Inject, Store and Remove Gas - Chatham 7-17-XII Pool - E.B.O. 201

1. CanEnerco shall provide the Board with a report identifying and explaining all material gas losses associated with the operation of the Chatham 7-17-XII Pool within six months of such losses being identified. 248
2. CanEnerco shall not operate the Chatham 7-17-XII Pool above a pressure representing a pressure gradient of 0.7 psi per ft depth (15.9 kPa/m) without leave of the Board. CanEnerco shall support any leave application with an engineering, geological and economic study showing that greater pressures are safe and in the public interest. 249
3. CanEnerco shall make the lessors an offer of fair, just and equitable compensation in respect of the gas storage rights and petroleum and natural gas leases, prior to the injection of natural gas into the Pool. 250
4. CanEnerco shall make to the landowners and/or tenants an offer of fair, just and equitable compensation for residual gas and any damage resulting from the authority hereby being granted by the Board. 251
5. The authority granted under this Order to CanEnerco is not transferrable to another party, without leave of the Board. 252
6. Should CanEnerco fail to inject sufficient gas to achieve a reservoir pressure of 700 psig before December 31, 1999, CanEnerco shall be required to apply to the Board for an extension of the authority granted under the Board's Order and will be required to submit evidence to show why such an extension should be granted. 253
7. CanEnerco undertakes not to drill any wells, or construct pipelines, access roads or any other infrastructure on the Marchand property in Lot 18, Concession XI, Chatham Township, unless the registered owner (presently Mrs. Mary Marchand) subsequently decides to execute a gas storage lease with CanEnerco Limited. 254
8. CanEnerco undertakes to use the Chatham Pool only for the storage of gas which it has produced or purchased and owns. The Pool shall not be used for the storage of gas owned by parties other than CanEnerco. CanEnerco shall not engage in any transaction that has the effect of providing storage service for any other party, unless the Board has approved a storage contract for that purpose under section 22(2) of the Ontario Energy Board Act. 255

9. The Board's designated representative for the purpose of these conditions shall be the Board's Case Manager, or in his absence the Board's Manager, Applications/Monitoring, responsible for facilities applications.

Appendix B Conditions of Approval

Leave to Construct NPS 6 Lines - Chatham 7- 17-XII Pool - E.B.L.O. 263

- a) Subject to Condition (b), CanEnerco shall comply with all undertakings made by its counsel and witnesses, and shall construct the facilities and shall restore the land according to the evidence of its witnesses at this hearing. 258
- b) CanEnerco shall advise the Board's designated representative of any proposed material change in construction or restoration procedures and, except in an emergency, CanEnerco shall not make such change without prior approval of the Board or its designated representative. In the event of an emergency, the Board shall be informed forthwith after the fact. 259
- c) CanEnerco shall furnish the Board's designated representative with every reasonable facility for ascertaining whether the work has been, and is being, performed in accordance with the Board's Order. 260
- d) CanEnerco shall file with the Board's designated representative notice of the date on which the lines are pressure tested within one month after the test date. 261
- e) Both during and after the construction, CanEnerco shall monitor the effects upon the land and the environment, and shall file ten copies of a monitoring report in writing with the Board, and simultaneously provide a copy of the environmental monitoring report to every landowner and tenant on the pipeline routes. The monitoring report shall be filed within 12 months of the in-service date. 262
- f) The monitoring report shall confirm CanEnerco's adherence to Conditions (a) and (b) and shall include a description of the effects noted during construction and the actions taken or to be taken to prevent or mitigate the long-term effects of the construction upon the land and the environment. This report shall describe any outstanding concerns of landowners or tenants. 263
- g) The environmental monitoring report shall describe the condition of the rehabilitated right-of-way. The results of the monitoring programs and analysis shall be included and recommendations made as appropriate. 264
- h) CanEnerco shall give the Board's designated representative and the Chairman of the Ontario Pipeline Coordinating Committee ("OPCC") ten days written notice in advance of the commencement of the construction of the lines unless said construction is to commence within ten days of receipt of this Board's decision and in such an event shall be as soon as possible. 265

- Was Appendix B page 2 266
- j) Authorization for Leave to Construct shall terminate December 31, 1998, unless otherwise ordered by the Board. Clearing, trenching and pipeline construction shall be limited to the period April 15 through October 31, 1998.
- k) CanEnerco shall designate one of its employees as project manager who will be responsible for the fulfilment of undertakings on the construction site and shall provide the name of the project manager to the Board's designated representative. CanEnerco shall prepare a list of the undertakings given by its counsel and witnesses during the hearing and will provide it to the Board's designated representative for verification and to the project engineer for compliance during construction. 267
- l) CanEnerco shall attach to its monitoring report a log of all complaints that have been received during construction. Such logs shall record the times of all complaints received, the substance of each complaint, the actions taken in response, and the reasons underlying such actions. 268
- m) Where properties or structures exist within 200 metres of the pipeline and blasting is necessary, CanEnerco shall: 269
- i) use restricted blasting techniques by ensuring that all charged areas are covered with blasting mats to eliminate fly rocks; 270
- ii) have the vibrations from blasting operations monitored and measured by a vibration measurement specialist; 271
- iii) notify all property owners within 200 metres of the easement of the proposed blasting in writing at least 24 hours prior to the blasting and confirmation (if necessary) of the actual day or days on which blasting will occur; 272
- iv) have buildings within 200 metres of the easement checked by an independent examiner before and after operations to check for problem areas 273
- n) Where blasting is required, the well location and water quality of all wells within 100 metres of the pipeline shall be tested before and after blasting operations. 274
- o) The Board's designated representative for the purpose of these Conditions of Approval shall be the Board's Case Manager or in his absence the Board's Manager, Applications/Monitoring. 275

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BY PRIORITY POST

April 25, 2002

APR 26 2002

Ms. Marika Hare,
Director, Regulatory Affairs
Consumer's Gas Company Ltd
500 Consumers Road
Toronto, Ontario
M2J 1P8

REGULATORY AFFAIRS

Dear Ms. Hare:

**Re: Enbridge Consumers Gas - Application for Authority to
Operate Chatham D Pool and Leave to Construct Pipeline.
Board File No. RP-2001-0057/EB-2001-0777**

The Board has today issued its Decision with Reasons and Order in the above matter and an executed copy is enclosed herewith.

Yours truly,


Peter H. O'Dell
Assistant Board Secretary

**RP-2001-0057
Chatham D Storage Pool**

M. Levac B. Craig J. Tricker J. Grant
F. Brennan S. Purcell F. Cass T. Ladanyi
M. Hare M. Heinz B. Bodnar

Orig.: M. Heinz

Encl.

Ontario Energy
Board

Commission de l'Énergie
de l'Ontario



RP-2001-0057

IN THE MATTER OF *the Ontario Energy Board Act, 1998*, S.O. c.15, Schedule B, as amended;

AND IN THE MATTER OF an application by The Consumers' Gas Company Ltd., carrying on business as Enbridge Consumers Gas, for authorization to inject gas into, store gas in and remove gas from the designated storage pool known as Chatham 7-17-XII Pool located in the Municipality of Chatham-Kent, County of Kent;

AND IN THE MATTER OF an application by The Consumers' Gas Company Ltd., for leave to construct a natural gas pipeline in the Municipality of Chatham-Kent, County of Kent.

BEFORE: Sheila K. Halladay
Presiding Member

A. Catherina Spoel
Member

DECISION WITH REASONS AND ORDER

1. The Consumers' Gas Company Ltd., ("Enbridge Consumers Gas", "ECG" or the "Company") filed an application, dated November 28, 2001, (the "Application") with the Ontario Energy Board (the "Board").
2. ECG applied under subsection 18(1) of the *Ontario Energy Board Act 1998*, S.O. c.15, Schedule B, as amended (the "Act") for approval of the transfer

or assignment to ECG of the authority granted to CanEnerco Limited ("CanEnerco") under Board Orders E.B.O. 201, E.B.L.O. 263 and E.B.R.M. 109, dated June 30, 1998 (collectively, the "263 Order"), to inject gas into, store gas in and remove gas from the designated gas storage area, located in the former Townships of Chatham and Camden Gore, now the Municipality of Chatham-Kent, (the "Chatham D Pool", the "Chatham 7-17-XII Pool" or the "Pool") and to enter into and upon the land in the area and use the land for such purpose, subject to certain conditions.

3. ECG requested that the conditions contained in paragraphs 1(b) and 1(c) of the 263 Order and condition 8 from the list of conditions attached as Appendix "B" to the 263 Order be excluded from the approval of the transfer or assignment of authority granted in paragraph 1(a) of the 263 Order.
4. In the alternative, ECG applied under subsection 38(1) of the Act for authority to inject gas into, store gas in and remove gas from the Pool and to enter into and upon the land in the area and use the land for that purpose.
5. ECG also applied under section 95 of the Act for an exemption from the requirements of section 90 of the Act for leave to construct a 3.0 kilometre NPS 10 transmission pipeline (the "Proposed Pipeline") from the Chatham D Pool to the Tupperville metering station owned by Union Gas Limited ("Union").
6. In the further alternative, ECG applied under section 90 of the Act for leave to construct the Proposed Pipeline.
7. This Application has been assigned Board File No. RP-2001-0057. A Notice of Application was served in accordance with the Board's Letter of Direction on January 8, 2002. One letter of comment was received from Mr. and Mrs. Hereygers. There were no intervenors.

8. Notice of Written Hearing was issued on March 6, 2002. No party satisfied the Board that there was a reason not to proceed by way of a written hearing.
9. Kinetic Energy Inc. ("Kinetic"), subsequently filed a letter, dated March 5, 2002 stating that Kinetic is not a gas storage company and has never operated the Chatham D Pool. Further, Macleod Dixon, Kinetic's solicitors, in a letter dated March 14, 2002 provided a summary of the various orders by Alberta and Ontario Courts which permit the sale of CanEnerco assets to take place.
10. A complete record of the proceeding is available for public inspection at the Board's offices. While the Board has considered all of the evidence and submissions in the proceeding, they are only referenced to the extent necessary to provide a background to this Decision.

Background to the Application

11. The Chatham 7-17-XII Pool is a Silurian age Guelph pinnacle reef located primarily in Lots 16 and 17, Concession XII in the Geographic Township of Chatham, in the Municipality of Chatham-Kent. The Pool was discovered in 1990 and the following year was connected to Union's local distribution system via an NPS 3 pipeline, approximately 3 kilometres in length (the "NPS 3 Pipeline"). From 1992 to 1997 approximately 1.63 Bcf of gas was produced from the Pool.
12. During 1996-1997, after approximately 1.3 Bcf of natural gas had been produced from the Pool, the petroleum and natural gas rights, gas storage rights, wells and production facilities associated with the Pool were acquired by CanEnerco.

13. By applications dated June 23, 1997 CanEnerco applied to the Board for:
- an order authorizing CanEnerco to inject gas into, store gas in, and remove gas from the Chatham D Pool and to enter into and upon the lands for such purposes;
 - an order granting CanEnerco leave to construct approximately 5.8 km of NPS 10 pipeline and associated facilities to connect the Pool with the Union's Panhandle transmission system (the "5.8 km Pipeline");
 - a favourable recommendation to the Lieutenant Governor in Council ("LGIC") regarding the designation of the Chatham D Pool as a gas storage area; and
 - a favourable recommendation to the Minister of Natural Resources regarding requested well drilling permits.
15. In 1998, the LGIC accepted the Board's recommendation and the Chatham D Pool was designated as a gas storage area by Ontario Regulation 369/98.
16. In the 263 Order the Board granted CanEnerco authority to inject gas into, store gas in and remove gas from the Pool and to enter into and upon the land in the area and use the land for such purpose, subject to certain conditions.
17. Paragraphs 1(b) and 1(c) of the 263 Order provided:
- 1(b) CanEnerco shall file an application for renewal of the authority to inject gas into, store gas in and remove gas from the Chatham Pool no later than four years from the initial date of injection.

1(c) CanEnerco shall file an annual report with the Board listing the technical qualifications of CanEnerco's employees as a storage operator and confirming its overall financial soundness and integrity. Any financial information considered confidential may be filed with the Board's Energy Returns Officer.

18. In addition, Condition 8 in Appendix "B" to the 263 Order provided:

The Board's authorization to store gas in the pool is for an initial five year term, and is conditional upon CanEnerco undertaking not to use the Pool for the storage of gas owned by parties other than CanEnerco and shall not engage in any transaction that has the effect of providing storage service for any other party. CanEnerco shall file annually by the end of each calendar year an affidavit by its chief executive officer, confirming compliance with this condition.

19. In the 263 Order the Board denied CanEnerco's application to construct the 5.8 km Pipeline on the basis that the Board considered the application to be premature insofar as there was a question whether Union could accommodate the proposed storage facility on its Panhandle system and that further negotiation and accommodation were required with the County regarding the right-of-way.
20. CanEnerco proceeded to drill the wells, install compression facilities, and commence storage operations in the summer of 1998, using the existing NPS 3 Pipeline. For approximately two years the Pool was operated as a gas storage facility with approximately 1.0 Bcf of gas being injected and withdrawn each year.
21. On March 31, 1999, CanEnerco applied to the Board for an exemption from the requirements of section 90 of the Act in respect the construction of an

NPS 10 transmission pipeline (the "Proposed CanEnerco Pipeline") to essentially replace the existing NPS 3 Pipeline. By Order, dated August 24, 1999, (the "PR-1999-0027 Order" or the "Exemption Order") the Board exempted CanEnerco from the requirements of section 90 of the Act in respect of the Proposed CanEnerco Pipeline, subject to certain conditions, including the condition that the Exemption Order terminated November 15, 2000. CanEnerco did not construct the Proposed CanEnerco Pipeline.

22. During 2000, CanEnerco began to experience financial difficulties. On November 30, 2000 by an Order of the Court of Queen's Bench of Alberta (the "Alberta Court") KPMG Inc. ("KPMG") was appointed Receiver and Manager of the undertaking, property and assets held in the name of CanEnerco. (the "Alberta Receivership Order"). The Alberta Receivership Order was recognized by Order of the Ontario Superior Court of Justice (the "Ontario Court") on December 27, 2000 (the "Ontario Recognition Order").
23. By agreement of purchase and sale, (the "Kinetic Sales Agreement") dated April 25, 2001, CanEnerco, by its Receiver and Manager, agreed to sell to Kinetic all of the right, title, estate and interest of the Receiver in and to the Assets (as more specifically defined in the Kinetic Sales Agreement), including the Chatham D Pool (the "Chatham D Assets").
24. ECG advised the Board that Kinetic, a corporation incorporated pursuant to the laws of British Columbia, with an office in London Ontario, carries on the business, among other things, of exploring, developing, producing and marketing natural gas, primarily within Ontario. ECG also advised the Board that Kinetic has limited experience in developing or operating gas storage and consequently it sought a purchaser of the CanEnerco storage assets. Kinetic submitted that it is not a gas storage company and has never operated the Chatham D Pool.

25. By order dated April 25, 2001 the Alberta Court approved the Kinetic Sales Agreement, in accordance with its terms (the "Alberta Vesting Order"). The Alberta Vesting Order requested the assistance and cooperation of the Ontario Court in recognizing, ratifying and enforcing the Alberta Vesting Order, including, specifically, the assistance and cooperation of the Ontario Court in connection with obtaining any requisite approvals or transfer as may be necessary from the Board.
26. By Order of the Ontario Court (the "Ontario Vesting Order") made April 30, 2001, the Alberta Vesting Order was recognized by the Ontario Court and declared enforceable in Ontario as if it were granted by the Ontario Court.
27. By Order of the Ontario Court dated June 5, 2001 (the "Ontario Varying Order") the Ontario Vesting Order was varied to permit the sale of the P&NG Assets (as such term is defined in the order) to proceed prior to the completion of the sale of the Chatham D Assets.
28. The purchase and sale of the P&NG Assets was completed on June 7, 2001.
29. In June 2001 ECG entered into an option agreement to allow time for the Company to review the Chatham D Pool information. Subsequently, by agreement of purchase and sale (the "ECG Sales Agreement") dated November 1, 2001 Kinetic agreed to sell all of the right, title, estate and interest of Kinetic in and to the Chatham D Assets to ECG for \$3.5 million. The closing of the purchase and sale of these assets is conditional on ECG obtaining all necessary approvals of the Board.
30. Once all necessary approvals have been obtained Kinetic advised the Board that it understands that the parties will proceed to complete the purchase and sale of the Chatham D Assets by Kinetic from KPMG in accordance with the terms of the Kinetic Sales Agreement and the purchase and sale of the

Chatham D Assets by ECG from Kinetic in accordance with the terms of the ECG Sales Agreement.

Need for the Proposed Storage

31. ECG advised the Board that it currently operates nine designated gas storage areas in Ontario. Eight of these designated gas storage areas (Corunna, Seckerton, Kimball-Colinville, Wilkesport, Dow Moore, Black Creek, Coveny and Ladysmith) are located in the County of Lambton, and one designated storage area, the Crowland Pool, is located in the Region of Niagara.
32. ECG is proposing to add the Chatham D Pool to its existing regulated storage system. Based on the Company's experience in operating its existing storage pools and on the two years of CanEnerco operating data, ECG projects that the Pool can be developed and operated to a working volume of 1.65 Bcf. Given the Pool's size and its location, ECG plans to operate the Pool as a base load pool within its integrated storage system, with gas being injected in the summer and withdrawn in the winter.
33. ECG advised the Board that the Company currently operates close to 97 Bcf of storage capacity. Approximately 90 Bcf was developed to satisfy ECG's customers and the remainder was developed under joint venture arrangements with Union and that capacity is contracted to Union. ECG currently also contracts for an additional 20 Bcf of storage space from Union to meet its in-franchise needs.
34. ECG submitted that it expects its in-franchise requirements to continue to grow, particularly in the heat sensitive residential market, over the next 5 years and with these additions, the Company is forecasting annual demand

within its franchise areas to grow from 458.7 Bcf in 2002-2003 to 506.9 Bcf in 2006-2007.

35. As a result of this increase in the heat sensitive load, the Company's storage requirements necessary to balance the winter and summer markets will increase accordingly. ECG estimates that it will require 7.4 Bcf of additional storage space by 2006-2007 in order to satisfy and balance the seasonal demands of its growing in-franchise customers. ECG submitted that with an estimated 1.65 Bcf of storage space, the addition of the Chatham D Pool will help to satisfy only a portion of the continually increasing demand.

Need for the Pipeline

36. Given the size and location of the Pool, ECG proposes to continue to use the Union Tupperville meter site and the measurement facility that was installed by Union for CanEnerco, for gas deliveries to and from the Pool. ECG advised the Board that Union has agreed to deliver and to take receipt of the Chatham D volumes at the Tupperville meter site and to transport these volumes via its Panhandle transmission system at Union's M-16 Rate.
37. The Chatham D Pool is currently connected to the Union Tupperville meter site by the NPS 3 Pipeline. ECG advised the Board that this line is not adequate for gas storage purposes, where ECG projects the flow rates into and from the Pool and through the transmission system on an annual basis will be over 10 times greater under gas storage operations than occurred during the production phase.

Project Economics

38. ECG advised the Board that, subject to Board approval, it will be acquiring the rights in the Chatham D Pool from Kinetic for \$3.5 million. In addition, in order to return the Pool to storage operation and to provide for reliable long-term storage to the full turnover volume level the following additional capital investments are required:

base pressure gas, 0.2 Bcf	\$1.10 million
installation of the Proposed Pipeline	1.14
compressor station upgrades	0.09
remedial work on storage wells	0.10
overhead costs	<u>0.18</u>

39. In addition to capital costs, ECG estimated that there would be annual operating and maintenance costs of \$350,000 and transportation costs on Union's Panhandle system using Union's Rate M-16 of \$254,000.
40. The Company noted that in calculating the economic feasibility of the project in order to allow time for the installation of the NPS 10 pipeline in the spring of 2002, the injection and subsequent withdrawal volume was assumed to be limited to 1.0 Bcf in the first year of operation. In the second year and beyond, the full turnover volume 1.65 Bcf was assumed to be available for use.
41. ECG used the SENDOUT model to determine the benefits of adding the Chatham D Pool to the Company's storage and distribution system to meet the annual, seasonal and peak day requirements of the in-franchise customers at the lowest system supply cost over the planning horizon. Using the SENDOUT model ECG calculated that the total cumulative supply cost

savings over the first eight years of operation would be \$13.3 million or on average \$1.66 million per year.

42. In order to determine the annual supply cost savings for an additional 32 years beyond 2009-2010, the Company used a best fit regression analysis of the annual supply cost savings in the first 8 years as determined by the SENDOUT model and then used this best fit estimate to forecast the annual supply cost savings for the remaining years in the analysis. ECG calculated that the accumulated supply cost savings to 2042 were \$63.8 million or \$1.99 million per year. ECG submitted that determining the early year benefits with SENDOUT and then forecasting the subsequent year benefits using a best fit regression analysis is consistent with the methodology used in the past for submissions to the Board for approval of new facilities.
43. ECG also calculated the economic feasibility of acquiring, developing, and operating the Chatham D Pool using a discounted cash flow ("DCF") analysis over a 40-year time horizon. The DCF analysis included the following components:
 - the capital costs of acquiring and developing the Chatham D Pool into an operational storage facility;
 - the CCA tax shield generated from these capital expenditures;
 - year-by-year operating cash flows for the Pool, comprised of
 - the annual supply cost savings generated from the additional storage capacity,
 - the incremental operating and maintenance costs of the facility, and
 - the M-16 transportation tolls charged by Union.
44. The result of the DCF analysis is a net present value ("NPV") and profitability index ("PI") for the project. The feasibility analysis for the Chatham D Pool incorporated all of the capital operating and maintenance costs, transportation costs and gas supply savings. The annual supply costs

savings or benefits, the annual operating and maintenance costs and the M-16 transportation costs were increased by the forecasted Canadian Consumer Price Index to allow for inflation. Over the 40 year operating horizon, the annual after-tax cashflows were discounted using the Company's current incremental, weighted average after-tax cost of capital which was adjusted in each year to 2005 to incorporate the announced federal and provincial tax rate reductions.

45. Based on this analysis the Chatham D Storage Pool project is estimated to have a PI of 2.32 and an after-tax NPV of \$7.8 million. ECG submitted that with a PI well above 1.0 and a positive NPV, this storage project exhibits a strong economic feasibility.

Land Matters - Chatham D Pool

46. In July 2001 a search of title of the lands overlaying the Chatham D Pool was conducted to confirm the current affected landowners. CanEnerco held all of the gas storage and petroleum and natural gas leases of all of the lands in the Chatham D Pool, except for the Marchand lands. The situation with respect to the Marchand lands was reviewed and addressed in the Board's decision dated June 30, 1998. ECG will be acquiring all of the gas storage and natural gas leases held by CanEnerco on closing of the purchase transaction.
47. ECG advised the Board that it has notified all of the landowners in the Pool by letter of its plans to become the operator of the Pool. In addition, ECG has met with each landowner to review its plans for the purchase and operation of the Pool and to answer questions they may have in regard to the change of ownership. ECG advised the Board that it is not aware of any landowner objections.

48. ECG has committed to honour the agreements that are in place with CanEnerco with respect to the storage, P&NG and surface rental payments that CanEnerco had been making. ECG has confirmed that all such payments required for 2001 have been tendered and that there will be no interruption of these annual payments.

Pipeline Environmental and Route Selection

49. In order to evaluate the possible pipeline routes to connect the Chatham D Pool to the Union system an Environmental Assessment and Route Selection Study was completed for CanEnerco by Water and Earth Science Associates Ltd. ("WESA") in November 1998 (the "1998 Report") and filed by CanEnerco in its original application to construct a 5.8 km pipeline to connect the Chatham D Pool directly into Union's Panhandle pipeline system.
50. In that report 4 alternative routes were considered: 3 were direct connections into Union's Panhandle pipeline system; and one was for connection to Union's Tupperville meter site. The Tupperville connection was the shortest and the preferred route from an environmental standpoint, but at the time of filing this application, the Tupperville site could not accommodate the flow rates requested by CanEnerco without expansion of Union's Panhandle to Tupperville lateral pipeline.
51. Subsequent to the 1998 Report, and according to additional evidence submitted in April 1999 for the second application for an NPS 10 pipeline, CanEnerco had by that date, determined that its immediate needs for the Chatham D Pool could be satisfied with connection to the Tupperville site.
52. In March 1999, WESA completed an addendum to its 1998 Report, which concluded that, the Tupperville delivery point and the resulting route then

being proposed was the preferred route and concluded that "This route will have low to moderate potential impacts, and is acceptable from an environmental impact perspective".

53. ECG submitted that the route proposed by ECG is the same preferred route that was recommended by WESA in March 1999.
54. In addition to the environmental consideration, the preferred route is shorter by approximately 50% or more than the alternatives that were considered in the 1998 Report for connecting the Pool directly to Union's Panhandle system. As such the number of landowners impacted directly or indirectly will be considerably reduced. Also, a key benefit from the shorter route is the considerably lower capital costs relative to the alternative routes.
55. The Proposed Pipeline would commence at the existing Chatham D Pool, located in Lot 17, Concession XII, Municipality of Chatham-Kent, just north of Green Valley Road, and will proceed north across a private easement parallel to the existing NPS 3 line to Base Line Road, then proceed west within the road allowance to Connection Road and then north to Union's Tupperville Metering Station, located at Lot 30, Concession 1 in the Geographic Township of Camden Gore. A map showing the location for the Proposed Pipeline is attached as Appendix "A". to this Decision.

Pipeline Design Details and Construction Specifications

56. ECG advised the Board that the proposed NPS 10 pipeline will be designed and constructed to conform to CSA specification Z662-99 and Ontario Regulation 210/01 for Oil and Gas Pipeline Systems. The route is in a Class 1 rural area and the pipeline is designed to meet or exceed the requirements of that class. The Proposed Pipeline will have a maximum allowed operating

pressure ("MAOP") of 6895 kPa. The actual pipeline operating pressures will be in the range from 1896 to 6033 kPa.

57. Construction of the proposed NPS 10 pipeline will be in accordance with the Enbridge Consumers Gas Contract Specifications . ECG has agreed to adhere to any project specific, mitigation measures recommended by WESA. In addition, the Company's Wet Soil Shut Down Procedure, which has been used in the past for the installation of storage pipelines in this area of Southwestern Ontario and was designed to protect soils on agricultural lands from excessive compaction and rutting caused by movement of heavy equipment during wet weather conditions will be adhered to. Further, all farm drainage tiles intercepted by the pipeline will be repaired to an equal or better condition.
58. All of the contract specifications, environmental requirements, wet soil shutdown procedure, drainage repair requirements and Board requirements will be included in the contractor installation bid documents and discussed fully with the successful contractor. The Company will ensure that all of the requirements are adhered to by close supervision throughout the project by a Company Project Manager and by Company Pipeline Inspectors. In addition, a drainage tile inspector, an environmental inspector and a landowner contact agent will be designated for the project to ensure compliance with all requirements, to ensure the affected landowners are advised of the installation as it progresses and to respond to concerns that may arise in a timely fashion.

Landowner Matters, Easement Agreements and Permits

59. ECG advised the Board that it has written to all landowners on and abutting the pipeline easement to advise them of the proposed NPS 10 pipeline. ECG is in the process of contacting all landowners directly to answer any

questions they may have and to determine if they have any objections to the proposed installation. ECG noted that these landowners were previously advised of this pipeline by CanEnerco and no objections were filed with the Board in the RP-1999-0027 proceeding.

60. The major portion of the proposed NPS 10 pipeline route is on municipal road allowances. ECG advised the Board that in meetings with the Manager, Operations North for the Municipality of Chatham-Kent no objection was raised to the installation of the proposed NPS 10 pipeline. Beyond the road allowance, there is only one landowner easement agreement required for the pipeline. This is with the landowner of the compressor site in Lot 17, Concession XII in the geographic Township of Chatham. This easement agreement, a copy of which was filed with the Board, is being acquired by ECG in the purchase of the CanEnerco assets. ECG advised the Board that the Company has met with these landowners and no objection was raised to the proposed NPS 10 pipeline.
61. At the opposite end of the pipeline, the meter site agreement for the lands in Lot 30, Concession 1, geographic Township of Chatham Gore, which was filed with the Board provides for the installation of the line at this small site and this agreement is also being acquired by ECG in the purchase agreement. ECG advised the Board that the Company has contacted the landowner for this site and no objection to this installation was raised.
62. The Company will also require a crossing agreement with CSX Transportation Inc. in order to cross their railroad right-of-way on Connection Road. In addition, permits will be required to cross the facilities of Bell Telephone, Hydro One, and the Chatham-Kent Municipal Water System. Temporary working areas will be obtained from at least two abutting landowners and temporary working areas immediately adjacent to the road allowance will facilitate the location of equipment required for boring under

Baseline Road and under the CSX railway. ECG advised the Board that “based on correspondence and consultation with the affected landowners, and parties the Company believes that there will continue to be no objections to the installation of this previously approved pipeline.”

63. There was one letter of comment from Mr. and Mrs. Hereygers expressing concerns about the installation of the proposed pipeline. The Hereygers are the owners and occupants of a house and small house lot on the east side of Connection Road. The Hereygers expressed concern regarding drainage. On February 16, 2002 ECG filed a temporary working area agreement with the Board along with a statement from the Hereygers indicating that they have no objections or concerns with respect to the construction of the Proposed Pipeline.

Exemption Application

64. The Company submitted that circumstances exist to allow the Board to grant an exemption from the requirements of section 90 of the Act requiring a leave to construct order. The circumstances that justify an exemption are as follows:
- there was no objection to the construction of this pipeline by CanEnerco and Enbridge Consumers Gas has advised the parties directly affected by this line and, at this point, the Company is not aware of any objection to the construction of this pipeline;
 - the pipeline will follow the same route as and will replace the existing NPS 3 production pipeline;
 - the pipeline will be located primarily on road allowance and will require only one easement on private lands, which easement was previously acquired by CanEnerco and the rights under this easement agreement are being acquired by Enbridge Consumers Gas;

- the route selected is the shortest and most direct of a number of alternative routes considered in the Environmental Assessment Report and Route Selection Study prepared for the previous CanEnerco application and the proposed route was judged to be the preferred route and to have minimum environmental impact; being the shortest route and being installed primarily in municipal road allowance, the line proposed will have minimal landowner impact;
 - also, being by far the shortest route, the proposed route will be significantly lower in cost than any of the alternatives;
 - the Board has previously reviewed the details and route of this pipeline and had granted an exemption from the requirements of section 90 for a leave to construct order to CanEnerco; and
 - ECG is prepared to accept all of the conditions of approval for the exemption granted to CanEnerco, for the installation of this line, subject to changing the deadline for installation, which has passed.
65. Based on all of the above circumstances, and based on the need demonstrated for this pipeline, on the agreements with the landowners and on the Company's considerable experience and record in installing similar pipelines for its storage operation, the Board believes that an exemption from a leave to construct order is warranted in this situation.

Conditions of Approval

66. ECG has requested that the following conditions contained in the 263 Order and in Appendix "B" to the 263 Order be removed from the assignment of CanEnerco's rights to ECG:
- the obligation to file an application for renewal of the authority to inject gas into, store gas in and remove gas from the Chatham Pool no later than four years from the initial date of injection;

- the obligation to file an annual report with the Board listing the technical qualifications of employees as a storage operator and confirming its overall financial soundness and integrity;
- that the Board's authorization to store gas in the Pool is limited to initial five year term; and
- that the Pool cannot be used for the storage of gas owned by third parties.

Board Findings

67. The Board finds that, based on the evidence, the transfer of the authority granted to ECG of the authority granted to CanEnerco under the 263 Order to inject gas into, store gas in and remove gas from the Chatham D Pool, and to enter into and upon the land in the area and use the land for such purpose, is in the public interest.
68. The Board agrees that ECG's request to remove certain conditions contained in the 263 Order is reasonable.
69. The Board is not satisfied that ECG has demonstrated special circumstances such that the Company should be exempt from the requirements to obtain an order granting leave to construct the Proposed Pipeline.
70. However, the Board finds that, based on the evidence, the construction of the Proposed Pipeline is in the public interest.

THE BOARD THEREFORE ORDERS THAT:

71. The transfer or assignment under subsection 18(1) of the *Ontario Energy Board Act 1998*, S.O. c.15, Schedule B, as amended (the "Act") to The Consumers' Gas Company Ltd. of the authority granted to CanEnerco Limited ("CanEnerco") under Board Orders E.B.O.201, E.B.L.O 263 and E.B.R.M. 109, dated June 30, 1998, to inject gas into, store gas in and remove gas from the designated gas storage area, located in the former Townships of Chatham and Camden Gore, now the Municipality of Chatham-Kent, (the "Chatham D Pool, the "Chatham 7-17-XII Pool" or the "Pool") and to enter into and upon the land in the area and use the land for such purpose, is approved, subject to the Conditions of Approval set forth in Appendix "B" attached hereto;
72. Leave to construct the proposed 3 km of natural gas transmission pipeline is granted to The Consumers' Gas Company Ltd., subject to the Conditions of Approval set forth in Appendix "C" attached to this Order.
73. The Consumers Gas' Company Ltd. shall pay the Board's costs of and incidental to these proceedings upon the issuance of the Board's invoice.

ISSUED at Toronto, April 25, 2002.

ONTARIO ENERGY BOARD



Peter H. O'Dell
Assistant Board Secretary

APPENDIX "A"

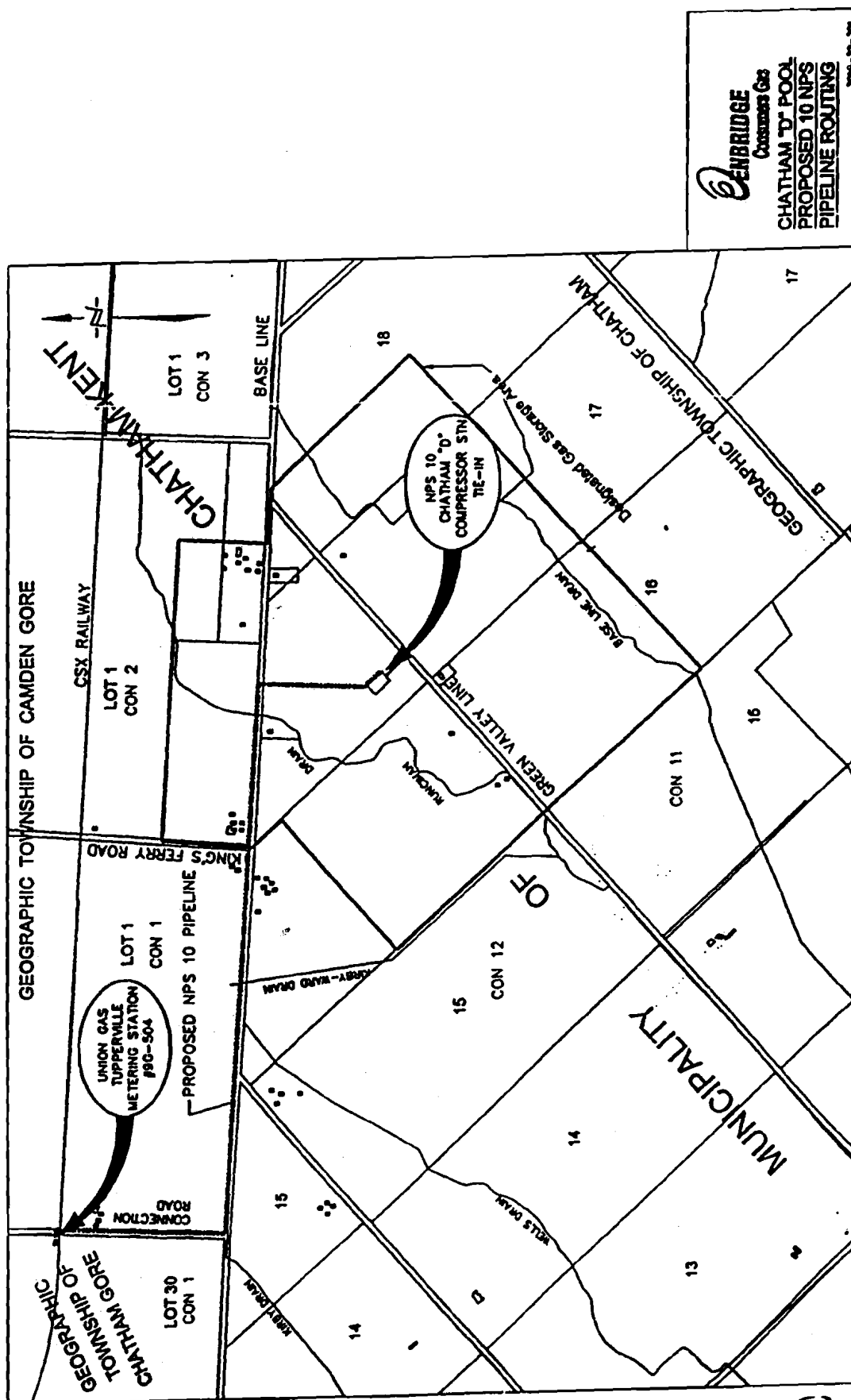
TO

BOARD ORDER RP-2001-0057

DATED APRIL 25, 2002

A handwritten signature in black ink, appearing to read 'Peter H. O'Dell', is written over a horizontal line.

Peter H. O'Dell
Assistant Board Secretary




APPENDIX "B"

TO

BOARD ORDER RP-2001-0057

DATED APRIL 25, 2002



Peter H. O'Dell

Assistant Board Secretary

Appendix "B"

RP-2001- 0057

OEB Staff Proposed
Conditions of Approval
Authorization to Inject, Store and Remove Gas - Chatham 7-17-XII Pool

1. The Consumers' Gas Company Ltd. ("ECG") shall provide the Board with a report identifying and explaining all material gas losses associated with the operation of the Chatham 7-17-XII Pool within six months of such losses being identified.
2. ECG shall not operate the Chatham 7-17-XII Pool above a pressure representing a pressure gradient of 0.7 psi per ft depth (15.9 kPa/m) without leave of the Board. ECG shall support any leave application with an engineering, geological and economic study showing that greater pressures are safe and in the public interest.
3. ECG shall make the lessors an offer of fair, just and equitable compensation in respect of the gas storage rights and petroleum and natural gas leases, prior to the injection of natural gas into the Pool.
4. ECG shall make to the landowners and/or tenants an offer of fair, just and equitable compensation for residual gas and any damage resulting from the authority hereby being granted by the Board.
5. The authority granted under this Order to ECG is not transferrable to another party, without leave of the Board.
6. Should ECG fail to inject sufficient gas to achieve a reservoir pressure of 700 psig (4826 kPa) before December 31, 2002, ECG shall be required to apply to the Board for an extension of the authority granted under the Board's Order and will be required to submit evidence to show why such an extension should be granted.
7. ECG undertakes not to drill any wells, or construct pipelines, access roads or any other infrastructure on the Marchand property in Lot 18, Concession XI, Chatham Township, unless the registered owner (presently Mrs. Mary Marchand) subsequently decides to execute a gas storage lease with ECG Limited.
8. The Board's designated representative for the purpose of these conditions shall be the Manager, Facilities.

APPENDIX "C"

TO

BOARD ORDER RP-2001-0057

DATED APRIL 25, 2002



Peter H. O'Dell
Assistant Board Secretary

Appendix "C"

RP-2001-0057

OEB Staff Proposed Conditions of Approval Leave to Construct NPS 10 Pipeline

1 General Requirements

- 1.1 The Consumers Gas Company Ltd. ("ECG") shall construct the facilities and restore the land in accordance with its application, evidence and undertakings, except as modified by this Order and these Conditions of Approval.
- 1.2 Unless otherwise ordered by the Board, authorization for Leave to Construct shall terminate December 31, 2002, unless construction has commenced prior to then.
- 1.3 ECG shall advise the Board's designated representative of any proposed material change in construction or restoration procedures and, except in an emergency, ECG shall not make such change without prior approval of the Board or its designated representative. In the event of an emergency, the Board shall be informed immediately after the fact.

2 Project and Communications Requirements

- 2.1 The Board's designated representative for the purpose of these Conditions of Approval shall be the Manager, Facilities.
- 2.2 ECG shall designate a person as project engineer and shall provide the name of the individual to the Board's designated representative. The project engineer will be responsible for the fulfilment of the Conditions of Approval on the construction site. ECG shall provide a copy of the Order and Conditions of Approval to the project engineer, within seven days of the Board's Order being issued.
- 2.3 ECG shall give the Board's designated representative and the Chair of the Ontario Pipeline Coordinating Committee (the "OPCC") ten days written notice, in advance of the commencement of the construction.
- 2.4 ECG shall furnish the Board's designated representative with all reasonable assistance for ascertaining whether the work is being or has been performed in accordance with the Board's Order.
- 2.5 ECG shall file with the Board's designated representative notice of the date on which the installed pipelines were tested, within one month after the final test date.

- 2.6 ECG shall furnish the Board's designated representative with five copies of written confirmation of the completion of construction. A copy of the confirmation shall be provided to the Chair of the OPCC.
- 2.7 Within fifteen months of the completion of construction, ECG shall file with the Board a written Post Construction Financial Report. The report shall indicate the actual capital costs of the project with a detailed explanation of all costs and shall explain all significant variances from the estimates filed with the Board.

3 Monitoring and Reporting Requirements

- 3.1 Both during and after construction, ECG shall monitor the impacts of construction, and shall file ten copies of both an interim and a final monitoring report with the Board. The interim monitoring report shall be filed within six months of the completion of construction, and the final monitoring report shall be filed within fifteen months of the completion of construction. ECG shall attach a log of all complaints that have been received to the interim and final monitoring reports. The log shall record the times of all complaints received, the substance of each complaint, the actions taken in response, and the reasons underlying such actions.
- 3.2 The interim monitoring report shall confirm ECG's adherence to Conditions 1.1 and shall include a description of the impacts noted during construction and the actions taken or to be taken to prevent or mitigate the long-term effects of the impacts of construction. This report shall describe any outstanding concerns identified during construction.
- 3.3 The final monitoring report shall describe the condition of the rehabilitated land and the effectiveness of the mitigation measures undertaken. The results of the monitoring programs and analysis shall be included and recommendations made as appropriate. Any deficiency in compliance with any of the Conditions of Approval shall be explained.

4 Easement Agreements

- 4.1 ECG shall offer the form of agreement approved by the Board to each landowner, as may be required, along the route of the proposed work.

5 Other Approvals

- 5.1 ECG shall file with the Board five copies of all other approvals, licences, and certificates required to construct, operate and maintain the proposed project as soon as these are acquired by the ECG.

6 Project Specific Conditions

- 6.1 There shall be no blasting along the proposed pipeline route.

LAND AND COMPENSATION

1. Enbridge has conducted a title search for the existing designated storage area and the proposed expansion to the existing designated storage area. The list of landowners may be found at Exhibit A, Tab 2, Schedule 4. Enbridge has utilized the gas storage rights and the petroleum and natural gas leases originally entered into by CanEnerco or its predecessors in title with the rights holder and where appropriate renewed such agreements on substantially the same terms and conditions. This is consistent with the requirement under Condition 3 of the Conditions of Approval – Right to Inject, Store and Remove – Chatham 7-17-VII Pool – EBO 201. Templates of the agreements may be found at Exhibit C, Tab 1, Schedule 6.
2. In reviewing the land records for the Chatham 7-17-VII Pool, Enbridge became aware that there was no agreement with the Municipality of Chatham Kent, or its predecessor municipality, in respect of areas beneath the municipal rights-of-way. Consistent with its practice at other similar facilities, Enbridge has offered a similar agreement as has been provided to the other rights holders. The Municipality of Chatham-Kent is the rights holder for properties 19 and 20 as shown in Exhibit C, Tab 1, Schedule 4.
3. The new proposed designated storage area includes two properties, 10 and 12, not previously included in the designated storage area. Enbridge has reached agreement with the owners of property 10 and 12.

EXISTING DESIGNATED STORAGE AREA

1. The following paragraphs provide the metes and bounds description of the current acreage area Chatham 7-17-XII Pool designated storage area.

ALL AND SINGULAR those certain parcels or tracts of land and premises, situate, lying and being in the Geographic Township of Chatham and the Gore of the Geographic Township of Camden, in the Municipality of Chatham - Kent, Province of Ontario, and being more particularly described as follows:

FIRSTLY: Being composed of the Northwest half of Lot 16, the Northwest half of Lot 17 and the Northwesterly quarter of Lot 18, Concession 11, in the Geographic Township of Chatham;

SECONDLY: Being composed of the Southeast half of Lot 16, all of Lot 17 and all of Lot 18, Concession 12 in the Geographic Township of Chatham;

THIRDLY: Being composed of the Road Allowance between Concessions 11 and 12, in front of Lots 16, 17 and 18, Geographic Township of Chatham and the Road Allowance, the North half of which fronts on the West three quarters of Lot 1, Concession 2 in the Gore of the Geographic Township of Camden and the South half of which fronts on Lots 17 and the Westerly portion of Lot 18, Concession 12;

FOURTHLY: Being composed of the South half of Lot 1, Concession 2, in the Gore of the Geographic Township of Camden;

which said parcels may be more particularly described as follows:

COMMENCING at the most Westerly angle of Lot 16, Concession 11, Geographic Township of Chatham;

THENCE Southeasterly, along the Southwest limit of said Lot 16 to the dividing line between the Northwest and Southeast halves of said Lot 16;

THENCE Northeasterly, along the dividing line between the Northwest and Southeast halves of Lots 16, 17 and 18, Concession 11, to the dividing line between the Northeast and Southwest halves of Lot 18, Concession 11;

THENCE Northwesterly, along said dividing line between the Northeast and Southwest halves of Lot 18, to the Southerly limit of the Road Allowance between the Geographic Township of Chatham and the Gore of the Geographic Township of Camden, known as Base Line;

THENCE Westerly, along the Southerly limit of Base Line to the Southerly production of the dividing line between the East and West halves of the East half of Lot 1, Concession 2, Gore of the Geographic Township of Camden;

THENCE Northerly, along said Southerly production and along the dividing line between the East and West halves of the East half of Lot 1, to the dividing line between the North and South halves of Lot 1, Concession 2;

THENCE Westerly, along said dividing line between the North and South halves, to the Westerly limit of Lot 1, Concession 2;

THENCE Southerly, along the said Westerly limit and its Southerly production to the Southerly limit of the Road Allowance between the Geographic Township of Chatham and the Gore of the Geographic Township of Camden, known as Base Line;

THENCE Westerly, along said Southerly limit of Base Line, to the Northwesterly angle of Lot 17, Concession 12, Geographic Township of Chatham;

THENCE Southeasterly, along the Northeasterly limit of Lot 16, Concession 12, to the dividing line between the Northwest and Southeast halves of Lot 16, Concession 12;

THENCE Southwesterly, along said dividing line between the Northwest and Southeast halves, to the Southwesterly limit of Lot 16, Concession 12;

THENCE Southeasterly, along said Southwesterly limit of Lot 16 and its production, Southeasterly across the Road Allowance between Concessions 11 and 12, Geographic Township of Chatham, to the point of Commencement.

PROPOSED DESIGNATED STORAGE AREA

1. The following is a description of the additional lands to be added to the designated storage area:

ALL AND SINGULAR those certain parcels or tracts of land and premises, situate, lying and being in the Gore of the Geographic Township of Camden, in the Municipality of Chatham-Kent, Province of Ontario, and being more particularly described as follows:

The South half of the East one quarter of Lot 1, Concession 2.

2. The following is a metes and bounds description of the proposed Chatham 7-17-XII Pool designated storage area including the additional lands described above.

ALL AND SINGULAR those certain parcels or tracts of land and premises, situate, lying and being in the Geographic Township of Chatham and the Gore of the Geographic Township of Camden, in the Municipality of Chatham-Kent, Province of Ontario, and being more particularly described as follows:

FIRSTLY: Being composed of the Northwest half of Lot 16, the Northwest half of Lot 17 and the Northwesterly quarter of Lot 18, Concession 11, in the Geographic Township of Chatham;

SECONDLY: Being composed of the Southeast half of Lot 16, all of Lot 17 and all of Lot 18, Concession 12 in the Geographic Township of Chatham;

THIRDLY: Being composed of the Road Allowance between Concessions 11 and 12, in front of Lots 16, 17 and 18, Geographic Township of Chatham and the Road Allowance, the North half of which fronts on Lot 1, Concession 2 in the Gore of the Geographic Township of Camden and the South half of which fronts on Lots 17 and 18, Concession 12 and also fronts on the west part of Lot 18, Concession 11, Geographic Township of Chatham;

FOURTHLY: Being composed of the South half of Lot 1, Concession 2, in the Gore of the Geographic Township of Camden;

which said parcels may be more particularly described as follows:

COMMENCING at the most Westerly angle of Lot 16, Concession 11, Geographic Township of Chatham;

THENCE Southeasterly, along the Southwest limit of said Lot 16 to the dividing line between the Northwest and Southeast halves of said Lot 16;

THENCE Northeasterly, along the dividing line between the Northwest and Southeast halves of Lots 16, 17 and 18, Concession 11, to the dividing line between the Northeast and Southwest halves of Lot 18, Concession 11;

THENCE Northwesterly, along said dividing line between the Northeast and Southwest halves of Lot 18, to the Southerly limit of the Road Allowance between the Geographic Township of Chatham and the Gore of the Geographic Township of Camden, known as Base Line;

THENCE Easterly, along the Southerly limit of Base Line to the Southerly production of the East limit of Lot 1, Concession 2, Gore of the Geographic Township of Camden;

THENCE Northerly, along said Southerly production and along the East limit of Lot 1, to the dividing line between the North and South halves of Lot 1, Concession 2;

THENCE Westerly, along said dividing line between the North and South halves, to the Westerly limit of Lot 1, Concession 2;

THENCE Southerly, along the said Westerly limit and its Southerly production to the Southerly limit of the Road Allowance between the Geographic Township of Chatham and the Gore of the Geographic Township of Camden, known as Base Line;

THENCE Westerly, along said Southerly limit of Base Line, to the Northwesterly angle of Lot 17, Concession 12, Geographic Township of Chatham;

THENCE Southeasterly, along the Northeasterly limit of Lot 16, Concession 12, to the dividing line between the Northwest and Southeast halves of Lot 16, Concession 12;

THENCE Southwesterly, along said dividing line between the Northwest and Southeast halves, to the Southwesterly limit of Lot 16, Concession 12;

THENCE Southeasterly, along said Southwesterly limit of Lot 16 and its production, Southeasterly across the Road Allowance between Concessions 11 and 12, Geographic Township of Chatham, to the point of commencement.

TITLE SEARCH OF PROPOSED DESIGNATED STORAGE AREA
REDACTED

1. The following Table provides a summary of the landowners from the title search of the proposed designated storage area. The results of the title search are included at Attachment A.

NUMBER	REFERENCE NAME	Municipal Address for Service
1		
2		
3		
4		
5		
6		
7	Enbridge	
8		
9		
10		
11		
12		
13		
14		
15		
16	Enbridge	
17		
18		
19/20	The Municipality of Chatham-Kent	
21		

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 Enbridge Gas Distribution Inc. under sections 36.1(1)(b) and 38 of the Act for an order or orders amending the designated storage area of the Chatham 7-17-XII Pool in the Municipality of Chatham-Kent;

AFFIDAVIT OF SEARCH OF TITLE

I, **Ann L. Gray**, of the City of Sarnia, Ontario, **MAKE OATH AND SAY AS FOLLOWS:**

1. I am a Free-Lance Title Searcher retained by Enbridge Gas Distribution Inc. (the "**Applicant**"), and as such have knowledge of the matters hereinafter deposed to.
2. On or about November 7, 2014, a search of title was conducted by myself, and abstracts of title and other title documents were obtained from the Land Registry Office for the Land Titles Division of Chatham-Kent, in respect of the lands situate in the existing and proposed designated storage area (the "**Subject Lands**"). The said searches were conducted for the purposes of determining the status of land tenure ownership and other registered interests or encumbrancers (collectively, "**Interested Parties**") of the Subject Lands.
3. As a result of the said searches conducted, I determined the list of Interested Parties who would be affected by the Application. Attached and marked as Exhibit "A" is a list of all such Interested Parties.
4. The attached list of Interested Parties was compiled on the basis of the review of the existing and proposed designated storage area pursuant to plans provided to me and the searches of title undertaken in connection therewith. Addresses for service for such

Interested Parties were derived from the registered documents and from municipal directories, where applicable.

SWORN before me at Sarnia,

)

)

[original signed]

Ontario, this 7th day of

)

)

Ann L. Gray

November, 2014.

)

[original signed]

A Commissioner for Taking Affidavits

*This is **Exhibit “A”** to the Affidavit of
Ann L. Gray, sworn before me
this 7th day of November, 2014*

[original signed]

A Commissioner, etc.

Filed: 2014-11-19
EB-2014-0288
Exhibit C
Tab 1
Schedule 5
Attachment
Exhibit A

Exhibit "A" of the affidavit of Ann L. Gray (pages 4 to 7) of this attachment has been filed in confidence with the Ontario Energy Board.

FORMS OF AGREEMENT

1. Templates of the forms of agreement are filed as an attachment to this exhibit.

GAS STORAGE LEASE AGREEMENT

This Agreement made effective thisday of 20

BETWEEN:
.....
..... of the.....of .
.....
in the ... **Municipality**..... of**Chatham-Kent**
...
in the Province of Ontario

(hereinafter called "the Lessor")
OF THE FIRST PART

- AND -

Enbridge Gas Distribution Inc. a Corporation incorporated under the laws of Ontario, having its Head Office in the City of Toronto.

(hereinafter called "the Lessee")
OF THE SECOND PART

WHEREAS the Lessor is the registered owner of or is entitled to become the registered owner of an estate in fee simple in that certain parcel or tract of land, situate, lying and being

in the

in the **Municipality**.....of **Chatham-Kent**.....

in the Province of Ontario, containing acres, more or less and described as follows:

All of PIN

Located

(hereinafter called the "said lands") subject to an oil and gas lease dated the day of, **20..**, and registered on the day of 20..... , in the Registry Office for the ...Municipality of Chatham-Kent as No. , for the of (hereinafter called "the oil and gas lease");

AND WHEREAS the Lessor has agreed to lease the sub-surface of the said lands to the Lessee for the purposes and on the terms and conditions hereinafter set forth:

WITNESSETH that in consideration of the sum of:

...****/100 Dollars (\$) now paid to the Lessor by the Lessee (the receipt of which is hereby acknowledged) and the further rents, covenants and agreements hereinafter reserved and contained:

The Lessor doth hereby demise and lease unto the Lessee, its successors and assigns all and singular the said lands save and except the surface rights thereto, save as hereinafter provided, (hereinafter called "the demised lands"), to be held by the Lessee, subject to the oil and gas lease, as tenant for a term of Ten (10) years from the date hereof, subject to renewal as hereinafter provided, for the purpose of injecting, storing and withdrawing gas, natural and/or artificial, (hereinafter collectively referred to as "gas") within or from the demised lands:

Yielding and paying therefor a clear annual rental at the rate of :

...**.....**...../100 Dollars (\$) per acre of the demised lands (the payment of the first annual rental is hereby acknowledged as received) payable in advance on the anniversary date hereof in each year during the term hereof; together with the sum of

.....**.....**...../100 Dollars (\$.....) for each acre (and/or fraction thereof) of the surface of the demised lands occupied by the Lessee at any time during any lease year for the purpose

of the Lessee's operations hereunder, payable in arrears at the end of such lease year, provided that if the Lessor is already being compensated by the Lessee for its occupation of such surface under any other Agreement with the Lessee, the total rate of compensation for such occupation payable by the Lessee shall not exceed the aforesaid sum.

AND FOR THE CONSIDERATION, rentals and payments aforesaid, the Lessor doth also hereby give and grant unto the Lessee insofar as the Lessor has the right so to grant the same, the right, liberty and privilege of withdrawing from the demised lands and of selling or otherwise disposing of the same, all such waters, salts, minerals and other substances as may be necessary to allow the injection and storage of gas therein.

THE LESSOR COVENANTS AND AGREES TO AND WITH THE LESSEE:

1. Promptly to pay and satisfy all taxes, rates and assessments that may be assessed or levied against the said lands during the continuance of this Agreement.
2. That the Lessor has good title to the said lands as hereinbefore set forth, has good right and full power to lease the demised lands, rights and privileges in the manner aforesaid and that the Lessee upon performing and observing the covenants and conditions on the Lessee's part herein contained shall and may peacefully possess and enjoy the demised lands and the rights and privileges hereby granted during the said term and any renewal thereof without any interruption or disturbance from or by the Lessor or by any person whomsoever claiming under the Lessor.
3. That at the expiration of the term of Ten (10) years hereinbefore mentioned, unless the Lessee shall give written notice to the Lessor of its desire not to renew this Agreement, the same shall automatically be renewed as to that part of the demised lands then held by the Lessee, together with the rights and privileges hereunder, and the term extended for a further period of Ten (10) years at the annual rental then being paid as herein provided. Such extended term and each succeeding thereafter shall be subject to all the provisions hereof including this provision for renewal.
4. That if the Lessor owns an interest in the demised lands less than the entire fee simple estate, the rentals and payments to be paid hereunder shall be paid to the Lessor only in the proportion which the Lessor's interest bears to the whole and undivided fee.

THE LESSEE HEREBY COVENANTS AND AGREES TO AND WITH THE LESSOR

5. To pay the rentals hereinbefore reserved in each and every year in advance during the currency of this Agreement.
6. To pay all taxes, rates and assessments that may be assessed or levied in respect of any and all machinery, compressors, equipment, tanks, structures and works placed by the Lessee in, on, or over the demised lands.
7. To conduct all its operations on the demised lands in a diligent, careful and workmanlike manner and in compliance with the provisions of law applicable to such operations and where such provisions of law conflict or are at variance with the provisions of this Agreement such provisions of law shall prevail.
8. Save as herein specifically provided with respect to the purchase by the Lessee of the Lessor's interest in such of the gas and oil and related hydrocarbons as are contained in the demised lands, there is hereby excepted and reserved to the Lessor in respect of all waters, salts, minerals and other substances withdrawn, saved and sold or otherwise disposed of from the demised lands hereunder, a gross royalty of Five percent (5%) of the current market value of such substances at the wellhead.
9. Not to drill or operate a well within two hundred feet of any residence or barn on the said lands without the Lessor's consent, and when required by the Lessor to bury pipe lines below ordinary plough depth.
10. To pay and be responsible for all damages and injuries sustained by the Lessor caused by or attributable to the operations of the Lessee and upon the abandonment of any well and the cessation of operations by the Lessee to restore the surface thereof to the same condition, so far as may be practicable, as existed before the entry thereon and use thereof by the Lessee.
11. That upon surrendering any of its interest in the demised lands to the Lessor, it shall at its own expense register such surrender in the Registry Office for the Registry Division in which the said lands are situated.

THE LESSOR AND THE LESSEE DO HEREBY MUTUALLY COVENANT AND AGREE EACH WITH THE OTHER AS FOLLOWS:

12. The Lessee shall have the right at any time and from time to time to surrender this Agreement as to any or all portions of the demised lands, whereupon this Agreement and all payments hereunder shall be terminated as to the demised lands so surrendered and the surface thereof; provided that the Lessee shall have no right to surrender this Agreement in respect of any portion of the demised lands lying within a storage area so designated by law, unless such surrender be for the whole of the demised lands and its entire interest under this Agreement.
13. The Lessee shall at all times during the currency of this Agreement and for a period of six months following the termination thereof or following a surrender either in whole or in part have the right to remove or cause to be removed from the said lands all tanks, stations, structures, fixtures, pipe lines, compressors, material and equipment of whatsoever nature or kind which it may have placed in or on the said lands or on any area surrendered and to pull casing in wells drilled and/or operated on the demised lands pursuant to the terms of this Agreement.
14. The Lessee may delegate, assign or convey to other corporations or persons, partnerships, associations and other unincorporated bodies, all or any of the powers, privileges, rights, or interests demised, granted, leased or conferred upon the Lessee herein and may enter into all agreements, contracts and writings and do all things necessary to give effect to this clause.
15. In case there is or shall be any tax, mortgage, encumbrance, lien, balance of purchase money or other charge upon the said lands which has priority to this Agreement other than the oil and gas lease, the Lessor hereby authorizes the Lessee to pay at its option any or all compensation and/or rents which shall become payable hereunder in or towards the discharge of such tax, mortgage, encumbrance, lien, balance of purchase money, or other charge upon the said lands and thereupon the Lessee shall at its option become subrogated to the rights of the holder thereof.
16. Subject to its rights, if any, under the oil and gas lease, the Lessee shall not inject gas into the demised lands under the provisions hereof until it has offered to the Lessor the additional acreage rental to be paid to the Lessor in respect of its storage operations to be conducted hereunder in the manner hereinafter provided and until it has offered to purchase from the Lessor, as hereinafter provided, the Lessor's interest in such of the gas and oil and related hydrocarbons (hereinafter called "the petroleum substances") contained in the demised lands as are liable on the withdrawal of the gas so injected to be co-mingled indistinguishably therewith as to their respective volumes, or as are liable to be rendered commercially unrecoverable by reason of such injection or the storage operations to be conducted by the Lessee hereunder. Nothing herein shall prevent the Lessee from and it is hereby given the right at any time and from time to time to purchase the Lessor's interest in any, or all the other petroleum substances contained in the demised lands.
17. The purchase price of any of the petroleum substances to be purchased by the Lessee under Clause 16 hereof shall be computed as follows:
 - (a) (i) 12 1/2% of the current market value at the wellhead of all petroleum substances commercially recoverable from the demised lands in liquid form; and
 - (ii) 12 1/2% of the current market value at the wellhead or pithead of all other petroleum substances commercially recoverable from the demised lands down to a reservoir pressure of 50 pounds p.s.i.a..

-or-

- (b) in the manner hereinafter provided.
18. In the event that the Lessee desires to purchase any of the petroleum substances as provided in Clauses 16 and 17 hereof, it shall give written notice to the Lessor of the quantity thereof to be purchased, the price therefor computed as provided in Clause 17 (a) and the effective date of such purchase. The Lessee shall in addition state the additional acreage rental to be paid by the Lessee in respect of its storage operations to be conducted hereunder. The Lessor shall within Thirty (30) days from the receipt of the aforesaid notice advise the Lessee that it disputes either the purchase price or the additional acreage rental or both of them and in default of such notice of dispute the Lessor shall be deemed to have agreed thereto and the same shall become final and binding upon the Lessor and the Lessee. In the event that the Lessor gives such notice of dispute, such purchase price and additional acreage rental and any other compensation payable to the Lessor in respect of the Lessee's storage rights hereunder shall be determined by a board of arbitration in the manner provided under the Energy Board Act of Ontario and the regulations thereunder or under any act or regulations in amendment or substitution therefor.
19. Subject to the terms of any order made by the board of arbitration aforesaid, payment of the purchase price shall be made to the Lessor in five equal annual installments. The first payment of the purchase price shall be made and payment of the additional storage rental shall commence effective the date on which the Lessee first commences to inject gas into the demised lands or into any other lands within a gas storage area so designated by law with which the demised lands form a common storage pool or

reservoir; and subsequent payments of such purchase price and storage rental shall be made on the anniversary dates thereof.

20. (a) If the Lessor considers that the Lessee has not complied with any provision or obligation of this Agreement, including but not limited to a failure to pay any rental or any part thereof, a failure to give notice or to pay in the manner specified any rental or other sums for which specific provision is made in this Agreement, the Lessor shall notify the Lessee in writing, describing in reasonable detail the alleged breach or breaches. The Lessee shall have Thirty (30) days after receipt of such notice to:
- (i) remedy or commence to remedy the breach or breaches alleged by the Lessor, and thereafter diligently continue to remedy the same; or
 - (ii) commence and diligently pursue proceedings for a judicial determination as to whether the alleged acts or omissions constitute a breach or breaches on the part of the Lessee.
- (b) The performance of any act by the Lessee intended to remedy all or any of the alleged breaches shall not be deemed an admission by the Lessee that it has failed to perform its obligations hereunder. If the Lessee fails to remedy or commence to remedy a breach or breaches within the Thirty (30) day period, or if having so commenced to remedy a breach or breaches thereafter fails to continue diligently to remedy the same, and if proceedings have not been commenced for a judicial determination as aforesaid, this Agreement, except for the Lessee's right with respect to the removal of equipment and its obligation to remove any registered document in relation to this Agreement, shall thereupon terminate and it shall be lawful for the Lessor to re-enter the said lands and to repossess them. If proceedings for a judicial determination are commenced within the aforesaid period of time, this Agreement shall not terminate until the existence of such breach has been finally judicially determined; nor shall it terminate if the Lessee within Thirty (30) days of such final determination has remedied or commenced to remedy the breach or breaches, and having so commenced to remedy the breach or breaches, thereafter diligently continues to remedy the same.
- (c) Notwithstanding anything contained in this Agreement, this Agreement shall not terminate nor be subject to forfeiture or cancellation if any portion of the said lands are located within a gas storage area so designated by law or subject to an application filed for such designation under the Energy Board Act of Ontario and the regulations thereunder or under any act or regulations in amendment or substitution therefor; and, in that event, the Lessor's remedy for any default under this Agreement shall be for damages only.
21. All payments to the Lessor provided for in this Agreement shall at the Lessee's option be paid or tendered either to the Lessor or to the Lessor's "agent" named in and pursuant to this Clause or to the "depository" herein named. All such payments or tenders may be made by cheque or draft of the Lessee payable to the order of the Lessor or his agent, or in cash, either mailed or delivered to the Lessor or his agent, as the case may be, or to the depository, as the Lessee may elect. Payments or tenders made by mail as herein provided shall be deemed conclusively to have been received by the addressee forty-eight (48) hours after such mailing.

The Lessor does hereby appoint and its successors, as his depository as aforesaid.

All payments to the depository shall be for the credit of the Lessor or his agent, as the case may be. The agent and the depository shall be deemed to be acting on behalf of the Lessor and shall continue as the agent and depository, respectively, of the Lessor for receipt of any and all sums payable hereunder regardless of any change or division in ownership (whether by sale, surrender, assignment, sublease or otherwise) of the demised lands or any part thereof or the rentals and other payments hereunder unless and until the Lessor gives the notice mentioned herein. All payments made to the agent or depository as herein provided shall fully discharge the Lessee from all further obligation and liability in respect thereof. No change in agent or depository shall be binding upon the Lessee unless and until the Lessor shall have given thirty (30) days notice in writing to the Lessee to make such payments to another agent or a depository at a given address which changes will be specified in such notice, provided however, that only one such agent and one such depository, both of whom shall be resident in Canada, shall have authority to act on behalf of the Lessor at any one time.

22. This Agreement expresses and constitutes the entire agreement between the Parties, and no implied covenant or liability of any kind is created or shall arise by reason of these presents or anything herein contained.
23. All notices to be given hereunder may be given by letter delivered or mailed, postage prepaid, and addressed to the

Lessor at
and to the Lessee at **Land Administrator, Enbridge, 3595 Tecumseh Road, Mooretown, Ontario N0N 1M0**, or such other address as either from time to time may appoint in writing, and every such notice so mailed shall be deemed to be given to and received by the addressee forty-eight (48) hours after such mailing.

24. The Family Law Act, 1990:

We,and.....
being spouses within the meaning of Section 1 (1) of The Family Law Act, R.S.O. 1990 c. F.3, do hereby consent to the transaction evidenced by this instrument and the registration of same on the title to the lands hereinbefore described.

25. If the standard of measurement applicable to the transaction contemplated herein is changed by law to the International System of Units (SI) or any other system, all measurements provided for herein shall be interpreted as referring to the International System of Units (SI) or other applicable equivalents.
26. Subject as hereinbefore provided, this Agreement shall enure to the benefit of and be binding upon the Parties hereto and each of them, their respective heirs, executors, administrators, successors and assigns.

IN WITNESS WHEREOF the Parties hereto have executed and delivered these presents as of the day and year first above written.

SIGNED SEALED AND DELIVERED

In the Presence of

LESSOR

yy/mm/dd

yy/mm/dd

yy/mm/dd

LESSEE

ENBRIDGE GAS DISTRIBUTION INC.

yy/mm/dd

yy/mm/dd
I/We have the authority to bind the corporation.

SCHEDULE "A"

ATTACHED TO AND FORMING PART OF A GAS STORAGE LEASE

DATED

BETWEEN

AND ENBRIDGE GAS DISTRIBUTION INC.

WHERE THE CONTEXT OF THIS SCHEDULE "A" CONFLICTS WITH THE REMAINDER OF THIS AGREEMENT, THE TERMS AND CONDITIONS OF THIS SCHEDULE "A" SHALL PREVAIL.

THE LESSOR AND LESSEE FURTHER COVENANT AND AGREE AS FOLLOWS:

PETROLEUM and NATURAL GAS LEASE and GRANT

Agreement of Lease made this day of., 20.

BETWEEN:
.....
.....
..... of the.....
..... of in the
..... of in the Province of
Ontario

(hereinafter called "the Lessor")
OF THE FIRST PART

- AND -

Enbridge Gas Distribution Inc. a Corporation incorporated under the laws of Ontario, having its Head Office in the City of Toronto.

(hereinafter called "the Lessee")
OF THE SECOND PART

WITNESSETH that the Lessor, being the owner or entitled to become the owner, subject to any registered encumbrances, of all petroleum, natural gas and related hydrocarbons, and of all minerals, substances and other gas within, upon or under those certain
lands in the of
in the of
in the Province of Ontario, containing acres, more or less and described as follows:

(herein called the "said lands")

IN CONSIDERATION of the sum of
(\$.....) Dollars paid to the Lessor by the Lessee (the receipt whereof is hereby acknowledged by the Lessor) and subject to the rents hereinafter reserved and the royalties hereinafter excepted from this grant and the covenants of the Lessee hereinafter contained, DOTH HEREBY GRANT AND LEASE unto the Lessee the leased substances as hereinafter defined, upon or under the said lands as hereinbefore defined, together with the exclusive right and privilege insofar as the Lessor has the right to grant the same, to explore, drill for, win, take, remove, and dispose of the leased substances and for the said purposes to enter upon, use and occupy the said lands or so much thereof and to such extent as may be necessary or convenient and to drill wells, lay pipelines including any and all necessary appurtenances, attachments and cathodic protection devices and build and install such tanks, stations, structures and roadways and to fence any portion of the said lands used as a well site as may be necessary for these purposes;

TO HAVE AND TO ENJOY the same for a term of twenty-one (21) years less one day from and including the date hereof and so long thereafter as the Lessee is carrying on gas storage operations on or in the vicinity of the said lands, subject to the other provisions herein contained;

PROVIDED that this Lease shall terminate and be at an end on the Lessee giving notice to the Lessor and until such notice is given the Lessee shall pay to the Lessor on or before the anniversary of the date of this Lease the sum of twenty-one dollars and fifty-one cents (\$21.51) per acre (the "rental"). The Lessee shall adjust the rental from time to time so that it is in accordance with the rental rates paid by the Lessee for similar leases in its gas storage operations.

THE LESSOR AND THE LESSEE HEREBY COVENANT AND AGREE WITH EACH OTHER AS FOLLOWS:

1. Interpretation:—
In this Lease, unless there is something in the subject or context inconsistent therewith, the expressions following shall have the following meaning, namely:
- (a) "leased substances" shall mean and include:—
 - (i) all petroleum, natural gas and related hydrocarbons;
 - (ii) all minerals, substances and other gas produced in association with the foregoing or found in any water contained in an oil or gas reservoir, but shall not mean and include coal and valuable stone; and
 - (iii) all salt, salt formations and all brine.
 - (b) "lands" shall mean all the lands hereinbefore described or such portion or portions thereof as shall not have been surrendered.

- (c) "spacing unit" shall mean and include the area allocated to a well for the purpose of drilling for and/or producing the leased substances or any of them by or under any law of the Province of Ontario now or hereafter in effect governing the spacing of petroleum and/or natural gas wells.
- (d) "commercial production" shall mean the output from a well of such quantity of the leased substances or any of them as, considering the cost of drilling and production operations and price and quality of the leased substances, after a production test of Thirty (30) days, would commercially and economically warrant the drilling of a like well in the vicinity thereof.
- (e) "anniversary date" means the yearly recurrence of the date which appears at the top of page 1 of the lease.

2. Royalties:-

The Lessor does hereby reserve unto himself a royalty in the amount equal to the value at the wellhead:

Of one-eighth (1/8, 12 ½%) of all the leased substances produced, saved and marketed from the said lands, subject to the Lessee's right and power to pool or combine the said lands in accordance with Paragraph 13 hereof, provided however that no such royalty shall be paid on that portion of the leased substances used on the lands for the recovery of the leased substances. Such royalty shall be payable to the Lessor on the 25th day of the month following the month in which any well drilled on the said lands shall be brought into production and thereafter on the 25th day of each succeeding month or so long as the leased substances shall be produced, saved and marketed from the said lands.

3. Shut-in Wells:-

That if, at the expiration of the primary term or at any time or times thereafter, there is any well on the said lands, or on lands with which the said lands or any portion thereof have been pooled, capable of producing the leased substances or any of them, and all such wells are shut-in, the existence of the said shut-in wells shall continue this lease in full force and effect as if the leased substances or any of them were being produced from the said lands within the meaning of the habendum clause for so long as the said wells are shut-in. If no royalties are otherwise payable hereunder during a lease year within which such shut-in period or periods occur and during such lease year no operations are conducted on the said lands, then, on the anniversary date of such lease year the Lessee shall pay to the Lessor as royalty an amount equal to five hundred dollars (\$500.00) for each such well and each such well shall be deemed to be a producing well hereunder. The Lessee covenants and agrees to use reasonable diligence to produce and either utilize or market the leased substances capable of being produced from the said wells, but in the exercise of such diligence the Lessee shall not be obligated to install or furnish facilities other than well facilities and ordinary lease facilities of flow lines, separator and lease tank.

4. Records of Production:—

The Lessee shall make available to the Lessor during normal business hours at the Lessee's address hereinafter mentioned, the Lessee's records relative to the quantity of leased substances produced from the said lands.

5. Lesser Interest:—

If the leased substances and/or the said lands be held by the Lessor in undivided ownership with another person or persons, then the Lessor shall be entitled to receive only a percentage of the rentals and royalties herein reserved, computed in accordance with the Lessor's percentage of interest in the leased substances and/or the said lands.

6. Indemnification:—

The Lessee shall indemnify the Lessor against all actions, suits, claims and demands by any person or persons whomsoever in respect of any loss, injury, damage or obligation to compensate arising out of or connected with the work carried on by the Lessee on the said lands or in respect of any breach of any of the terms and conditions of this Lease insofar as the same relates to and affects the said lands.

7. Compensation and Restoration of Surface:—

The Lessee shall pay and be responsible for all damages and injuries sustained by the Lessor caused by or attributable to the operations of the Lessee, and upon the abandonment of any well and the cessation of operations by the Lessee on the well site, and upon the surrender of this Lease as herein provided, the Lessee shall restore the surface thereof to the same condition, so far as may be practicable, as existed before the entry thereon and use thereof by the Lessee.

8. Taxes Payable by the Lessor:—

The Lessor shall promptly satisfy all taxes, rates and assessments of whatsoever nature or kind made or imposed against or in respect of the surface of the said lands, or that may be assessed or levied, directly or indirectly, against the Lessor by reason of the Lessor's interest in production obtained from the said lands or the Lessor's ownership of mineral rights in the said lands.

9. Taxes Payable by the Lessee:—

The Lessee shall pay all taxes, rates and assessments that may be assessed or levied in respect of the undertaking and operations of the Lessee on, in, over or under the said lands, and shall further pay all taxes, rates and assessments that may be assessed or levied directly or indirectly against the Lessee by reason of the Lessee's interest in production from the said lands.

10. Correction of Land Description:—

If the description of the said lands herein contained be incorrect or insufficient for the purpose of registration, the Lessor hereby appoints the leasing agent and/or any land department or other authorized employee of the Lessee to be the Lessor's attorney to correct this Lease accordingly, or if it does not include all of the lands intended to be described in this Lease, the Lessor covenants to execute a new lease in the same form in every respect as this Lease, but containing a proper description of all the lands intended to be included in this Lease as aforesaid, if so requested by the Lessee.

11. Clearance of Prior Leases:—

The Lessor covenants that save as to this Lease there is no valid lease of the leased substances, and if a lease of the leased substances be registered against the said lands or any portion thereof, the Lessor hereby authorizes and empowers the Lessee, at the Lessee's option and expense, to take any proceedings to obtain a surrender, release, discharge or order vacating such lease or to obtain a declaration from the Supreme Court of Ontario that such lease is invalid and the Lessor further covenants and agrees to cooperate with the Lessee in any and all such proceedings.

12. Registration of Lease:—

The Lessee shall register this Lease in the Registry Office or in the Land Titles Office for the area in which the said lands are situated and the Lessee shall withdraw or discharge the document so registered within a reasonable time after termination of this Lease.

13. Pooling:—

The Lessee is hereby given the right and power at any time and from time to time to pool or combine the said lands, or any portion thereof, or any zone or formation underlying the said lands or any portion thereof, with any other lands or any zone or formation underlying the same, but so that the lands so pooled and combined (hereinafter referred to as a "unit") shall not exceed One (1) spacing unit as herein defined. In the event of such pooling or combining, the Lessor shall receive on production of the leased substances from the unit in lieu of the royalties herein specified, only such portion of such royalties as the surface area of that portion of the said lands placed in the unit bears to the total surface area of all the land in the unit. Further in the event of such pooling or combining, any payment made in accordance with paragraph 3 hereof shall be apportioned in the same way as royalties. Drilling operations on, or production of the leased substances from, or the presence of a shut-in or suspended well on, any land included in the unit shall have the same effect in continuing this Lease in force and effect as to the whole of the said lands, as if such drilling operations or production of the leased substances were upon or from the said lands or some portion thereof, or as if such shut-in or suspended well were located on the said lands, or some portion thereof.

14. Operations:—

- (a) The Lessee shall conduct all its operations on the said lands in a diligent, careful and workmanlike manner and in compliance with the provisions of law applicable to such operations and where such provisions of law conflict or are at variance with the provisions of this Lease, such provisions of law shall prevail.
- (b) The Lessee covenants to bury pipelines below ordinary plough depth when required by the Lessor.

15. Discharge of Encumbrances:—

The Lessee may at its option pay or discharge the whole or any portion of any tax, mortgage, balance of purchase money, lien or encumbrance of any kind or nature whatsoever upon the said lands or the leased substances which has priority to this Lease, in which event the Lessee shall be subrogated to the rights of the holder or holders thereof and may in addition thereto at the Lessee's option, reimburse itself by applying on the amount so paid by the Lessee, the rentals, royalties, or other sums accruing to the Lessor under the terms of this Lease.

16. Surrender:—

Notwithstanding anything herein contained, the Lessee may at any time or from time to time determine or surrender this Lease and the term hereby granted as to the whole or any part or parts of the leased substances and/or the said lands, upon giving the Lessor prior written notice to that effect, whereupon this Lease and the said term shall terminate as to the whole or any part or parts thereof so surrendered and the obligations of the Lessee shall, save as provided in paragraph 7 hereof, be extinguished or correspondingly reduced as the case may be. Any reduction in the rental under the terms of this clause will be in the same proportion as the amount of acreage surrendered bears to the total acres under lease. The Lessee shall not be entitled to a refund of any rental or royalty theretofore paid.

17. Removal of Equipment:—

The Lessee shall at all times during the currency of this Lease and for a period of Six (6) months after the termination hereof, so long as it is not in default or arrears, have the right to remove all or any of its machinery, equipment, structures, pipelines, casing and materials from the said lands.

18. Default:—

In the case of the breach or non-observance or non-performance on the part of the Lessee of any covenant, proviso, condition, restriction or stipulation herein contained which ought to be observed or performed by the Lessee and which has not been waived by the Lessor, the Lessor shall, before bringing any action with respect thereto or declaring any forfeiture, give to the Lessee written notice setting forth the particulars of and requiring it to remedy such default, and in the event that the Lessee shall fail to commence to remedy such default within a period of Ninety (90) days from receipt of such notice, and thereafter diligently proceed to remedy the same, then except as hereinafter provided, this Lease shall thereupon terminate and it shall be lawful for the Lessor into or upon the said lands (or any part thereof in the name of the whole) to re-enter and the same to have again, repossess and enjoy; PROVIDED that this Lease shall not terminate nor be subject to forfeiture or cancellation if there is located on the said lands a well capable of producing the leased substances or any of them, and in that event the Lessor's remedy for any default hereunder shall be for damages only.

19. Quiet Enjoyment:—

The Lessor covenants and warrants that the Lessor has good title to the leased substances and the said lands, has good right and full power to grant and demise the same and the rights and privileges in the manner aforesaid, and that upon the Lessee observing and performing the covenants and conditions on the Lessee's part herein contained, the Lessee shall and may peaceably possess and enjoy the same and the rights and privileges hereby granted during the currency of this Lease without any interruption or disturbance from or by the Lessor or any other person whomsoever.

20. Further Assurances:—

The Lessor and the Lessee hereby agree that they will each do and perform all such acts and things and execute all such deeds, documents and writings and give all such assurances as may be necessary to give effect to this Lease.

21. **Assignment:—**
The Parties hereto and each or either of them may at any time and from time to time delegate, assign, sub-let or convey to any other person or persons, corporation or corporations, all or any of the property, powers, rights and interest obtained by or conferred upon them respectively hereunder and as the same relate to all or any part of the said lands, and may enter into all agreements, contracts and writings and do all necessary acts and things to give effect to the provisions of this clause; provided that no assignment of royalties, rentals or other monies payable hereunder and no change or division in the ownership of the said lands or any part thereof, by the Lessor, however accomplished shall operate to enlarge the obligations or diminish the rights of the Lessee nor shall any such assignment be binding upon the Lessee unless and except the same is for the entire interest of the Lessor in all such sums remaining to be paid or to accrue hereunder and provided further that the Lessor shall give the Lessee thirty (30) days' notice in writing in a form satisfactory to the Lessee of any such delegation, assignment, sub-letting or conveyance by the Lessor; provided further that in the event that the Lessee shall assign this Lease as to any part or parts of the said lands, then the rental shall be apportioned amongst the several leaseholders rateably according to the surface area of each and the several leaseholders shall be individually responsible for the payment of their portion of the rental and for the payment of royalties hereby reserved unto the Lessor in respect of any production from wells drilled on their respective parts of the said lands. Should the Assignee or Assignees of any such part or parts fail to pay the proportionate part of the rental or the royalty payable by him or them, such failure to pay shall not operate to terminate or affect this Lease insofar as it relates to and comprises the part or parts of the said lands in respect of which the Lessee or its Assignees shall make due payment of rental and royalty.
22. **Manner of Payments:—**
All payments to the Lessor provided for in this Lease shall at the Lessee's option be paid or tendered either to the Lessor or to the Lessor's Agent named in and pursuant to this clause or to "the depository" herein named. All such payments or tenders may be made by cheque or draft of the Lessee payable to the order of the Lessor or his Agent, or in cash, either mailed postage prepaid, registered or delivered to the Lessor or his Agent, as the case may be, or to the depository, as the Lessee may elect. Payments or tenders made by mail as herein provided shall be deemed to have been received by the addressee forty-eight (48) hours after such mailing.
The Lessor does hereby appoint
of as his agent as aforesaid
and(Bank or Trust Company) at
and its successors, as his depository as aforesaid.

All payments to the depository shall be for the credit of the Lessor or his Agent, as the case may be. The Agent and the depository shall be deemed to be acting on behalf of the Lessor and shall continue as the Agent and depository, respectively, of the Lessor for receipt of any and all sums payable hereunder regardless of any change or division in ownership (whether by sale, surrender, assignment, sublease or otherwise) of the said lands or any part thereof or the leased substances therein contained or of the royalties or other payments hereunder unless and until the Lessor gives the notice mentioned herein. All payments made to the Agent or depository as herein provided shall fully discharge the Lessee from all further obligation and liability in respect thereof. No change in Agent or depository shall be binding upon the Lessee unless and until the Lessor shall have given Thirty (30) days' notice in writing to the Lessee to make such payments to another Agent or depository at a given address, which changes will be specified in such notice; provided however, that only one such Agent and one such depository, both of whom shall be resident in Canada, shall have authority to act on behalf of the Lessor at any one time.
23. **Entire Agreement:—**
This Lease expresses and constitutes the entire agreement between the Parties, and no implied covenant or liability of any kind is created or shall arise by reason of these presents or anything herein contained.
24. **Notices:—**
All notices to be given hereunder may be given by letter delivered or mailed, postage prepaid, registered and addressed to the Lessee at
and to the Lessor at
or such other address as either from time to time may appoint in writing, and every such notice so mailed shall be deemed to be given to and received by the addressee forty-eight (48) hours after such mailing.
25. **S.I.:—**
If the standard of measurement applicable to the transaction contemplated herein is changed by law to the International System of Units (SI) of any other system, all measurements provided for herein shall be interpreted as referring to the International System of Units (SI) or other applicable equivalents.
26. We,and.....
being spouses within the meaning of Section 1(1) of the Family Law Act, R.S.O. 1990, c. F.3., together with any amendments thereto, do hereby consent to the transaction evidenced by this instrument and the registration of same on the title to the lands hereinbefore described.
27. **Enuring Clause:—**
Subject as hereinbefore provided, this Lease shall enure to the benefit of and be binding upon the Parties hereto and each of them, their respective heirs, executors, administrators, successors and assigns.

IN WITNESS WHEREOF the Lessor and the Lessee have executed and delivered this Lease as of the day and year first above written.

SIGNED, SEALED AND DELIVERED
In the Presence of:

LESSOR

yy/mm/dd _____
Per

yy/mm/dd _____

yy/mm/dd _____
Per

yy/mm/dd _____
Per

yy/mm/dd _____
Per

Enbridge Gas Distribution Inc.

I/We have the authority to bind the corporation.

SCHEDULE "A"

ATTACHED TO AND FORMING PART OF A PETROLEUM AND NATURAL GAS
LEASE AND GRANT

DATED

....

BETWEEN

AND ENBRIDGE GAS DISTRIBUTION INC.

WHERE THE CONTEXT OF THIS SCHEDULE "A" CONFLICTS WITH THE REMAINDER
OF THIS AGREEMENT, THE TERMS AND CONDITIONS OF THIS SCHEDULE "A"
SHALL PREVAIL.

THE LESSOR AND LESSEE FURTHER COVENANT AND AGREE AS FOLLOWS: