EB-2014-0012
Exhibit K2.1

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

IN THE MATTER OF an Application by Union Gas Limited, pursuant to section 3.6(1) of the *Ontario Energy Board Act*, for an order or orders necessary to accommodate a new interruptible natural liquefaction service at its Hagar Liquefied Natural Gas facility.

Compendium of Documents of Union Gas Limited (re: Northeast Midstream's Motion made pursuant to section 29(1) of the Ontario Energy Board Act)

TAB 1

there's four reasons given by Union. Are these the -- I'm going to take you through them, but these are the special and unique circumstances why a regulated rate should be provided, notwithstanding the existence of an emerging competitive market? Would you agree?

MS. VAN DER PAELT: I agree.

MS. BLANCHARD: So your first -- the first unique circumstance is that the Hagar facility is also required for system integrity. And so is that essentially -- does that go to the point that there's difficulties associated with allocating costs? Is that why that's listed there?

MS. VAN DER PAELT: It actually goes to the operation. The Hagar is there as a system integrity asset first and foremost, so the service that we can provide as a liquefaction has to basically fill in the gaps and will be fully interruptible at the discretion of the utility, so we cannot offer firm or a high-quality service, because it is a system integrity asset first and foremost.

MS. BLANCHARD: So in terms of the actual product that is going to be offered, the LNG, would you agree that it's the same product that Northeast will be offering?

MS. VAN DER PAELT: The physical product LNG is the same. I cannot speak as to whether the services Northeast is offering are the same, because ours is interruptible. I'm not sure if they are offering a firm or -- a firm and an interruptible service.

MS. BLANCHARD: So the substantial difference that Union is focused on is the interruptible nature of the

the public interest?

MS. VAN DER PAELT: We believe there will be.

MR. MILLAR: Of course, one of the Board's key mandates -- I didn't bring the Act with me before, but I'm sure you will have reviewed the Board's objectives at some time, and one of the objectives is to protect the interests of consumers with respect to prices and the reliability and quality of gas service. You would have seen that at some point over your careers, no doubt.

In the current case, who would the consumer be that this rate is designed to protect? Would it be the consumers of the liquefaction service?

MS. VAN DER PAELT: We would agree it's the consumers of the liquefaction service.

MR. MILLAR: And is it Union's view that these consumers need the protection of a regulated rate?

MS. VAN DER PAELT: I think it's our view that, because we're using regulated assets, that we require either a regulated rate or a certainty around what the charge would be that the non-utility would pay. Our request isn't -- we're not asking for the rate so much because we think they need protection, but more for -- that we have certainty around how to deal with what is a regulated asset.

MR. MILLAR: Okay. And I'll get to that in a moment.

I want to be careful -- again, like my friends -- that I don't stray into things that are not part of the motion. I do have some questions that relate at least a little bit level, is that there's two reasons for your opposition to having this service unregulated, and the first is that it's some combination of it being both interruptible and being used for system integrity.

And then I think the other reason I heard, speaking at a broad level, as that there would be some difficulties with the cost allocation, on exactly how you would do it at the highest level; have I got that right?

MS. VAN DER PAELT: I'll address the first part of that. So yes, at the highest level it's because the service itself is embedded into the fact that Hagar is a system integrity asset.

MR. MILLAR: Why does that mean that the new service has to be regulated?

MS. VAN DER PAELT: Because you can't operate it without -- Union actually dictates how it's operated, versus the unregulated entity. So Union will be the one to tell, if you had an unregulated entity in a hypothetical situation, that it was or was not available, because the unregulated utility would have no ability to determine that.

MR. MILLAR: Sorry, could you repeat that?

MS. VAN DER PAELT: Union, the regulated entity, it is solely at their discretion as to whether or not it's available.

MR. TETREAULT: Mr. Millar, if I could --

MR. MILLAR: Is your mic on?

MR. TETREAULT: It is, sorry. I would also say that we felt we needed to come to the Board for a regulated rate for the reason Ms. Van Der Paelt mentioned, which is it is a regulated asset paid for by utility ratepayers in its entirety. So we felt we needed to come to the Board for approval of all of the section 36 requests we have in front of the Board here today.

MR. MILLAR: The integrity function that the facility currently serves, whether the motion is granted or not, that would continue to be regulated; correct?

MR. TETREAULT: Yes, that's correct.

MR. MILLAR: And I think you sought to distinguish this from the situation in NGEIR. Could you help me with that? I don't want to put words in your mouth, but if you could give me the 20-second overview of why you think this is different from NGEIR.

MR. TETREAULT: You mentioned difficulties with cost allocation in your question, Mr. Millar. I don't think there are difficulties with cost allocation. What I was suggesting earlier is that what differentiates this from the NGEIR Decision and the accounting separation we had to undertake at Dawn several years ago is with Dawn, you clearly had firm utility assets that were there to provide firm service to distribution customers.

MR. MILLAR: That's the 100 PJs?

MR. TETREAULT: That's the 100 PJs that was reserved for in-franchise or utility requirements. And at the same time, you clearly had firm assets over and above the 100 PJs that was reserved for utility purposes, that were

UNION GAS LIMITED

Answer to Interrogatory from
Northeast Midstream LP

Reference: Exhibit A Tab 1, Page 18, Lines 14-21

If the tank volume is less than the maximum volume required to cover system integrity, please state how Union will prioritize demands for liquefaction for system integrity versus requests for interruptible LNG.

Response:

Filling for system integrity will take priority over demands for interruptible LNG. Prioritization of liquefaction at Hagar available for interruptible LNG will be a function of tank level and available days remaining to get to full.

TAB 2

So picking that up -- and you also cover that in your affidavit as well, Ms. Van Der Paelt. So the question is then: What are the key differences between a pilot and/or demonstration project and a rate-regulated LNG service?

MS. VAN DER PAELT: So the term "pilot" and "demonstration" was from the customer's view, so the customer is piloting equipment. It wasn't from the view that Union needed to pilot the sale of LNG.

So we need a rate order which -- to enable LNG to be available to customers who want to try LNG to prove out their economics and prove out their own business cases.

Hagar has a very small amount of LNG available, which makes it a perfect subject in order to support pilot projects.

I'm thinking of one of the first interrogatory responses I had for Board Staff; I indicated Hagar could serve, you know, at most, 200 trucks, or three ships, or -- and I think there's another thing in there. Those are pilots.

There was a comment made earlier about Roberts Trucking. They have 125 trucks.

So Hagar could not support multiple fleets, but it could help a fleet driver who wants to try three or four trucks, to see how the fuel works, to get comfortable with the equipment, and then with them trying that, increase the demand for LNG, which will bring new players to the market, who will then build new facilities to support that demand.

DR. HIGGIN: So your response is that a demonstration project is the economic viability of LNG for the transportation market and the players in the transportation market, not for the suppliers?

MS. VAN DER PAELT: Correct.

DR. HIGGIN: Thank you.

Let's go to Union's objectives, and say: What is Union's business plan for LNG and the overall goal of this project? Where will it lead? Is it a commercial project, or is there an overall business plan?

We haven't seen a business plan yet for the LNG market for Union Gas or its affiliates.

MS. VAN DER PAELT: Our business plans today are to support pilot projects, and we see this as a developing market.

As an example, in the marine market, in order to convert a ship, it takes several years and a lot of money. But we know from our discussions with marine operators that they will want to pilot that ship for two years. These aren't pilots that last a month or week.

These companies are making big investments into equipment, and they want to actually prove out their business cases for longer periods of time.

Our hope is that you get that shipping company moving and they move on to someone else as a supplier, and then we can pilot with another shipper on the Great Lakes. And then we can see continually developing that market because of Hagar's size, to maybe help a mining company, or helping a trucking company.

But we can only physically do very few, and so it will be a gradual transition. And when you get on to the -- well, I'll say commercially viable from the customer's view, they move off to another supplier, like a Northeast Midstream, and Hagar continues with other pilot projects.

But Hagar is physically too small to support them long-term.

DR. HIGGIN: So you are in essence positioning Hagar as a kind of demonstration project or series of projects, and that's your business plan?

MS. VAN DER PAELT: Hagar's position as a supplier to help customers demonstrate their projects.

DR. HIGGIN: One question I had -- and if you know the answer, it would be helpful, or point me to it in the evidence -- and that is with respect to your affiliate or - sorry, your counter Quebec utility.

The question is: For Gaz Metro, have they structured their LNG as utility business or as a non-utility business? Do you know the answer to that? And if so, can you tell us?

MS. VAN DER PAELT: I know at a high level. The actual sale of LNG is through their unregulated affiliate, GMTS, and then the unregulated affiliate has to pay through a charge-back. That's the mechanism. I'm not sure exactly how they comp -- but they have to compensate the utility for the assets they're using, because it is also winter peaking facility they are using to produce the LN.

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Reference: Exhibit A / Tab 1 / Page 1

Union on line 13 states, "However, as liquefaction services at Union's Hagar facility will be provided within a regulated regime the use of the LNG could be expanded beyond motor vehicle fuel without further regulatory approvals."

What other commercial uses of Liquefied Natural Gas ("LNG") does Union see in the future and how is this facilitated within a regulated regime?

Response:

As evident by the interruptible nature of Union's proposed L1 service, there is a limited supply of LNG available at Hagar. For example, based on 678,400 GJ per year (Union's 2018 liquefaction activity forecast) of LNG available from Hagar, Hagar will be able to provide enough fuel for:

200	**Class 8 Trucks**
	OR
30	**Mine Vehicles**
	OR
3	**Marine Ships**

This limited supply restricts Union's ability to expand the use of LNG to meet other commercial applications such as fuel mining vehicles, remote power applications, marine and/or rail engines. Union assumes using LNG to serve other commercial activities would fall outside the regulated business.

UNION GAS LIMITED

Answer to Interrogatory from
Building Owners and Managers Association ("BOMA")

Reference: Cost Allocation and Rate Design

What is Union's understanding of the competition for the service it intends to provide in Ontario:

a) currently;

b) over the next three years.

Response:

a) and b) Currently, there are no LNG plants located in Ontario other than Hagar. LNG is available for purchase from either Gaz Metro Transport Solutions (in Montreal) or from the Citizen's Gas affiliate in Indianapolis. In either case, transportation costs are higher than would be available from the Hagar facility for Ontario based customers. A new LNG facility is being proposed by Northeast Midstream in Thorold Ontario. This facility is still in the planning stages and will not be constructed until 2016 or later. The lack of LNG supply in Ontario is currently a barrier to market adoption of LNG as a transportation fuel. The introduction of LNG from Hagar could provide the necessary stimulus to the market to support additional LNG facilities in Ontario.

UNION GAS LIMITED

Answer to Interrogatory from
Northeast Midstream LP

Reference: Exhibit A Tab 1, Page 10, Lines 5-11

What is the per GJ market rate for LNG at the present time?

Response:

There is currently no open and transparent LNG market in Ontario, therefore there is no market rate at the present time. Union's introduction of the L1 rate will establish the first publicly available price for LNG where a major component of the LNG, the base commodity price for natural gas, will be established using a price to be determined within a Board-approved range or, should the customer opt to purchase their own supply, at market prices.

TAB 3

requirements from what the non-utility requirements were. And we did that on the basis of the fact that all the assets at Dawn could provide a firm service; they were firm assets. And to me, that is one of the things that's different with Hagar.

So I think an accounting separation, in theory, could be done. But where it may not work in the same way as Dawn did is the fact that we don't have any firm assets available solely for the purpose of providing the liquefaction service.

All of the firm assets at Hagar are required for system integrity purposes. It's only if we don't have a system integrity event that we're able to offer the liquefaction service on an interruptible basis.

So I would draw that key distinction between Hagar from an accounting standpoint, and what happened as a result of NGEIR at Dawn.

MS. BLANCHARD: So are you suggesting that there's no -- there's no appropriate mechanism for allocating costs between the two services that could fill that gap?

MR. TETREAULT: No, I'm not necessarily suggesting that. I mean, it is a bit of a hypothetical. But I will take you back to our rate design as well.

Our rate design contemplates the new service providing a contribution to the recovery of existing costs at Hagar, specifically liquefaction and storage costs. So there has been a cost allocation exercise amongst the functions at Hagar, that being liquefaction storage and vaporization, and clearly we have a proposal for Board approval of that cost allocation methodology.

But I would say to separate Hagar itself between system integrity and the new service is -- I'm not quite sure how you would do that, given there are no firm assets available to provide the liquefaction service. In theory, of course, you could do an accounting separation. I'm not sure in practice how you would do that, when none of the assets are dedicated to providing the liquefaction service on a firm basis at Hagar.

That's the key distinction, in my view, between what was done at Dawn and the Hagar facility itself.

MS. BLANCHARD: I think -- and you'll correct me if I've got this wrong, but earlier in your testimony, when you were discussing the proposal for a deferral account, you indicated that that isn't required because this is under IRM; is that accurate?

MR. TETREAULT: That's correct.

MS. BLANCHARD: So assuming for a moment that this isn't covered by IRM -- and I'm not asking you to agree with that proposition, but only to assume it for a moment -- would a deferral account type arrangement which begins with the forecast and does a true-up at the end of each year, would that address the uncertainty that you're raising in terms of usage year over year?

MR. TETREAULT: No, I don't think so. I don't understand the need for a deferral account in that scenario. We've designed a rate to provide a contribution it's more complicated here?

MR. TETREAULT: No, I think Dawn was very different, that exercise. We knew what our utility requirements were, what the in-franchise requirements were. We also knew there were ex-franchise requirements, all facilitated with firm assets, firm services.

The Board in NGEIR reserved up to 100 PJs of storage space for future in-franchise growth. I see Hagar being very different from the standpoint that on a firm basis, the only function Hagar can provide is a system integrity function. As I mentioned, we can't offer this liquefaction service on anything other than an interruptible basis.

So I'm not sure that it would make sense necessarily to have an accounting separation akin to what was done at Dawn after -- as a result of the NGEIR Decision, for Hagar.

As I mentioned earlier, we have a -- our proposed rate for this service does contemplate the new service providing a contribution to the recovery of costs at Hagar, for the assets it is using on an interruptible basis.

MS. SPOEL: Can I just interrupt for a minute, Mr. Tetreault? I'm having some trouble understanding the concept of firm and interruptible in this particular scenario, because, as I understand it, when you liquefy the gas, it becomes liquid and you store it in your storage tank. So you don't have to liquefy it the same day. I take it that someone comes and trucks -- and then people will come and take it away, right? They'll put in a tanker truck and take it somewhere else? That's the plan?

there for ex-franchise customers, if you will.

And so from an accounting standpoint -- and again, I'm paraphrasing here, but you could go through quickly and look at the demands associated with the assets, and after that review separate out those costs, those assets.

I don't think -- I would describe it this way. I don't think it makes sense necessarily to do that with Hagar, because the only firm service that Hagar can provide, if I can even call it a service, is its system integrity function.

So there is no firm asset in this circumstance that is surplus to utility requirements. Hagar, by its very nature, is required for system integrity purposes. It's only the fact that we have, on an interruptible basis anyway, surplus liquefaction capacity that even allows us to begin to think about offering the service we've applied for approval of. So very different circumstances, in my view.

MR. MILLAR: Union offers a short-term storage rate; is that correct?

MR. TETREAULT: We offer short-term storage services under our market-priced schedule, yes.

MR. MILLAR: And that allows you to use some of the 100 petajoules that's been allocated to in-franchise customers and, on a short-term basis, sell that to ex-franchise customers?

MR. TETREAULT: Yes, the storage space of the 100 PJs that's excess to utility needs is sold short-term by the non-utility business.

MR. MILLAR: Isn't that the same thing that we're looking at for Hagar?

MR. TETREAULT: No, I think the difference there to me is those short-term storage assets in the case of the 100 PJ amount that's -- or the portion of that that's over and above what the utility requirements -- those are firm assets. Those are assets that we know are available for sale on the non-utility side, subject to sharing with ratepayers.

We have -- we don't know that. In fact, we know the opposite with regard to Hagar. If we have a system integrity event and need to refill the tank and therefore use the liquefaction capacity to do so, we have a very, if any, limited -- or we have a very limited, if any, ability to offer this interruptible service, so I don't see -- I know it's been put to me several ways, but I don't see the analogy between Dawn and Hagar in this context.

MR. MILLAR: Mr. Tetreault or any of the witnesses, doubtless you're familiar with the settlement agreement that gave rise to your current IRM plan? You were involved in that proceeding in some manner, I assume?

MR. TETREAULT: Yes, I was.

MR. MILLAR: And by my read of it, it doesn't speak directly to a service becoming unregulated; is that fair to say? It's silent on that?

MR. TETREAULT: I believe that's correct, subject to check. I have not reviewed it, the settlement agreement,

TAB 4

questions.

MS. LONG: Thank you, Mr. Rubenstein.

Mr. Brett?

CROSS-EXAMINATION BY MR. BRETT:

MR. BRETT: Yes, thank you very much.

Panel, you were talking a moment ago about this project being a demonstration project. Are you able to say at this point categorically that Union would not build additional liquefaction facilities at Hagar? In other words, you would not seek to build a full-scale commercial plant in the future? Is your role only to be a demonstration project provider?

MS. VAN DER PAELT: We have no plans to expand Hagar or build any additional facilities there beyond what we filed here.

MR. BRETT: And that would include greenfield facilities other than Hagar as well?

MS. VAN DER PAELT: Greenfield facilities we have not ruled out. We have only sort of cursory looked at them, but we do not believe greenfield facilities would be regulated.

MR. BRETT: Okay. Now, I just wanted to check something, Mr. Tetreault. I discussed -- we asked about this in BOMA 8, although we didn't ask quite this question, but it's around the issue of risk, and I asked Dr. Gaske this morning about this.

Am I right -- and just very simply, am I right in saying that when you get to rebasing, when we get to

TAB 5

consistent supply of LNG as well?

DR. GASKE: That is correct.

MR. KEIZER: I just want to take you to -- and I'm conscious of the time here, but I think I'm still under my allotment -- to paragraph 39 of your affidavit.

And at paragraph 39 of your affidavit, you say that:

"If the LNG fuel market grows, it is unlikely that Union will remain small. Instead, it can reasonably be anticipated that Union initially will expand its Hagar LNG fuel capacity in an attempt to capture as much market share as possible."

So my question to you is: Did you meet with anyone at Union, with respect to your ability to reach that conclusion?

DR. GASKE: No, I did not.

MR. KEIZER: And did you find that anywhere in the evidence in this proceeding?

DR. GASKE: No, I did not.

MR. KEIZER: And did you confirm it from any other third-party source?

DR. GASKE: No.

MR. KEIZER: I believe there is an affidavit filed by Mr. Fay in this proceeding, who is a representative with Union Gas. Did you read his affidavit?

DR. GASKE: Yes, I did.

MR. KEIZER: And did you see within his affidavit commentary with respect to the use of Hagar as a system integrity asset?

DR. GASKE: Yes.

MR. KEIZER: And so we're saying -- he indicates that:

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

Do you see that?

DR. GASKE: Yes, I do.

MR. KEIZER: So he submitted that affidavit signed October 23rd. You then provided a supplementary affidavit, which is November 6. And I believe at -- sorry, one moment.

Sorry. I wanted to take you to a particular comment, but effectively -- unfortunately, I can't turn it up at the moment.

But the comment was that you still believe that they were going to expand Hagar, and that Hagar could easily be changed from a system integrity asset to one that is predominantly for LNG purposes.

Do you recall making that statement in your affidavit?

DR. GASKE: Yes. It was in the context of the observation that Hagar is rarely used, and that if you look at the past five years. nearly all of the facility could be used for LNG, so that you could very quickly make that the predominant use of the facility.

MR. KEIZER: Are you an engineer, sir?

DR. GASKE: No.

MR. KEIZER: And do you have knowledge in respect of system integrity?

DR. GASKE: Yes.

MR. KEIZER: So you've run system integrity assets?

DR. GASKE: Now, I've worked with gas companies my entire career, so I have a basic understanding of system integrity concepts.

MR. KEIZER: So do I, Dr. Gaske.

Just a general question. I note that you have done various and given various evidence with respect to rate-related matters. It's a pretty fundamental principle of ratemaking, is it not, that before assets are added to rate base, that they have to pass a prudence review?

DR. GASKE: Yes.

MR. KEIZER: And so that includes an assessment of whether that's in the interest of ratepayers, with the interest of -- the public interest, as to whether it would be added to rate base?

DR. GASKE: That's correct.

MR. KEIZER: And so in effect for discretionary investments in rate base, whether or not that makes economic sense to do so?

DR. GASKE: Generally, yes.

MR. KEIZER: And so with respect to certain assets, that economics would be -- you know, for example, the revenue stream that would be generated, you would have to

TAB 6

to the recovery of certain costs. We have also ensured in our rate design that the new service picks up or pays for all of the incremental costs, both capital and O&M, associated with providing the service.

I'm not sure, in that circumstance, what a deferral account would actually accomplish. You asked me to assume it wasn't IRM, so I can -- what I can assume, then, is it's rebasing and it's a cost of service type year. And to the extent a cost of service -- at a rebasing proceeding, we have a revenue deficiency associated with the new service, if I can describe it that way, the Board has some means to deal with the fact there's a revenue deficiency, if that were to happen.

One, the Board could impute volume, which imputes revenue. Or the other is that the Board could in theory disallow costs as not being prudently incurred.

So the Board has some tools in either of those circumstances, and I'm not sure what a deferral account would necessarily accomplish that those mechanisms wouldn't accomplish.

MS. BLANCHARD: I think what I was getting at was -- I understood you to say that one of the reasons why I'm going to read here that Union's in-franchise and ex-franchise requirements were easier to determine and ultimately separate in NGEIR was that there wasn't this overriding uncertainty as to how much system integrity capacity was going to be required year to year.

Is that an accurate description of the issue, of why

MR. KEIZER: Are you an engineer, sir?

DR. GASKE: No.

MR. KEIZER: And do you have knowledge in respect of system integrity?

DR. GASKE: Yes.

MR. KEIZER: So you've run system integrity assets?

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DR. GASKE: Yes.

MR. KEIZER: And so that includes an assessment of whether that's in the interest of ratepayers, with the interest of -- the public interest, as to whether it would be added to rate base?

DR. GASKE: That's correct.

MR. KEIZER: And so in effect for discretionary investments in rate base, whether or not that makes economic sense to do so?

DR. GASKE: Generally, yes.

MR. KEIZER: And so with respect to certain assets, that economics would be -- you know, for example, the revenue stream that would be generated, you would have to provide some form of revenue forecast if you were adding assets with respect to customer additions or otherwise?

DR. GASKE: That's correct.

MR. KEIZER: And if it wasn't economic, then the regulator could reject the addition of rate base?

DR. GASKE: That is correct.

MR. KEIZER: And even if it was added to rate base and the revenue forecast was wrong, then generally the utility is exposed to the volumetric risk?

DR. GASKE: If they don't have a volume tracker, and they would be exposed to that risk until the -- until they file the next rate case.

MR. KEIZER: And they'd be exposed to any cost increments as well, over and above what they forecast?

DR. GASKE: If they don't have a tracker, yes.

MR. KEIZER: And even if they came back and circumstances remained such that it was uneconomic, a ratemaking authority has certain tools that they could use to ensure that the ratepayers are insulated from either revenue deficiencies or cost increments?

DR. GASKE: That is correct.

MR. KEIZER: Can I just have a moment?

Those are my questions, Madam Chair.

MS. LONG: Thank you, Mr. Keizer.

Have the parties discussed who will be next in the order? No? Does anyone have a -- we're planning on taking a break at 11:00 o'clock. But, Dr. Higgin, are you saying that you would like to start?

UNION GAS LIMITED

Answer to Interrogatory from
Building Owners and Managers Association ("BOMA")

Reference: A-2-21

Union estimates that the interruptible liquefaction service will generate approximately $2.1 million per year. If that amount is not sufficient to provide the utility return on the costs assigned or allocated to the liquefaction business, will Union be inputting revenue for the difference, so that the shareholders will assume the underperformance risk? Please discuss fully.

Response:

No, Union will not be imputing revenue if the $2.1 million per year in forecasted revenue is not sufficient to generate a utility return. Based on Union's current forecast of revenues and costs, including a utility return on rate base, Union's project is economic.

During Union's 2014-2018 IRM term, Union is assuming risk with the development of the interruptible liquefaction service. Specifically, Union is taking the risk on any cost overruns associated with the forecasted capital investment and the volume risk associated with the forecasted level of liquefaction activity. Should the costs of the capital investment exceed the forecast of $8.7 million or the level of liquefaction activity fall below the average annual forecast of approximately 415,000 GJ per year, Union's utility earnings will be reduced.

The forecasted revenues and costs associated with the liquefaction service will also be subject to a full review during Union's next cost of service proceeding.

TAB 7

Now, buyers, is that not a critical thing? I mean, you don't -- let me maybe put it another way. You don't need a rate from a utility to ensure that you have a transparent market, do you? In fact --

MS. VAN DER PAELT: You need to be able to discover prices, but from the utility's viewpoint our only price is our rates.

MR. BRETT: I understand that.

MS. VAN DER PAELT: So I do need a rate to be transparent.

MR. BRETT: Okay. Those are my questions. Thank you.

MS. LONG: Thank you, Mr. Brett.

Mr. Millar?

CROSS-EXAMINATION BY MR. MILLAR:

MR. MILLAR: Thank you, Madam Chair, and good afternoon, panel. Many of my questions have been asked, but I have a few left. I'm going to start again, unfortunately, with a question about competition. This is coming to you a number of ways, and I'll be very brief on it, I promise.

But obviously the basis behind Northeast's motion is that they believe there is competition in this area sufficient to protect the public interest, and I've heard you say a number of things about that, that, as far as I could hear, did not necessarily disagree with that.

So I'm going to try and put the question to you more directly, and that is this: Does Union agree that there is or will be competition in this area sufficient to protect the public interest?

MS. VAN DER PAELT: We believe there will be.

MR. MILLAR: Of course, one of the Board's key mandates -- I didn't bring the Act with me before, but I'm sure you will have reviewed the Board's objectives at some time, and one of the objectives is to protect the interests of consumers with respect to prices and the reliability and quality of gas service. You would have seen that at some point over your careers, no doubt.

In the current case, who would the consumer be that this rate is designed to protect? Would it be the consumers of the liquefaction service?

MS. VAN DER PAELT: We would agree it's the consumers of the liquefaction service.

MR. MILLAR: And is it Union's view that these consumers need the protection of a regulated rate?

MS. VAN DER PAELT: I think it's our view that, because we're using regulated assets, that we require either a regulated rate or a certainty around what the charge would be that the non-utility would pay. Our request isn't -- we're not asking for the rate so much because we think they need protection, but more for -- that we have certainty around how to deal with what is a regulated asset.

MR. MILLAR: Okay. And I'll get to that in a moment.

I want to be careful -- again, like my friends -- that I don't stray into things that are not part of the motion. I do have some questions that relate at least a little bit

TAB 8

to manage that. And if the Panel -- or if we think it needs to be deferred, we can talk about that, but I'm going to try to focus on the section 29 motion as a starting point.

I would like to start with a question for Ms. Van Der Paelt. I would like to take you to your affidavit. I'm in paragraph 3, and in the last line you say:

"... Hagar will have no material impact on the overall competitiveness of the LNG market."

So can I take it from that, Ms. Van Der Paelt, that you concur that this is a competitive market for LNG?

MS. VAN DER PAELT: I would say the transportation fuels market is competitive, and to the point LNG is part of that it is a competitive market. LNG is in its infancy, so as a subset within that market there's not price transparency or discovery at this point, so it is still emerging and not fully competitive.

MS. BLANCHARD: So it's emerging? There will be a competitive market; is that accurate?

MS. VAN DER PAELT: Yes, we believe there will be, eventually.

MS. BLANCHARD: If I can just go into the response Union has provided, so I'm now on page 2 of the October 23rd response. Union has listed a number of unique and specific circumstances, which explain why, notwithstanding the existence of an emerging competitive market, the Board should nevertheless provide a regulated rate.

So I'm here on page 2, paragraph 6. And I think the application. So I'll try to, as best I can, keep the focus there.

So I would like to look at your response to the motion, and I specifically start with page 2, paragraph 4. Thank you.

So my first question: Just to follow up again, what would be, in Union's view, the conditions under which the LNG transportation market -- that's all uses -- would be competitive or workably competitive?

And please provide some summary of your analysis of that. You say 'will be," and I am looking for what is the basis of that statement, and the analysis.

MS. VAN DER PAELT: "Will be competitive" is our belief that this market is growing.

And in terms of what we define as competitive, I would say price transparency and discoverability; to me, a key aspect of a competitive market.

Secondly, that you have enough supply and demand that you have a balance, so that there is sufficient demand to warrant the development and more supply, and then sufficient supply to meet that demand. And you see that going back and forth.

At this point in time, what we see is there is constraints on both the supply and the demand, and no price transparency.

DR. HIGGIN: Thank you.

What about the other two criteria that we've been talking about, the geographic aspect of the supply market,

- Washington Gas Light Company (District of Columbia) offers a Developmental Natural Gas Service rate (Schedule No. 4) where service is available to a limited number of applicants in the District of Columbia service area for the sale of compressed gas and for the sale or delivery of gas to be used as Compressed Natural Gas (CNG) to fuel a vehicle or vehicles, to any customer who shall by contract agree to the terms for service at refuelling facilities operated at either Company or customer locations.

- Wisconsin Gas offers a Natural Gas Vehicle Service Rate (Schedule X-130) for provision of natural gas to customers who have natural gas compression facilities for fuelling natural gas vehicles.

- Yankee Gas (Connecticut) offers an Interruptible Natural Gas Vehicle Service (Rate NGV) to any customer requiring natural gas as a motor fuel for vehicles employed in fleet, car pool, public and private transportation, or other motor vehicle operations.

b) Yes. Union does consider the market for LNG as a transportation fuel competitive. At the same time, the LNG for vehicle transportation market is an emerging market, one that is expected to develop gradually over the next several years. There are currently two LNG wholesalers operating in Ontario, Gaz Metro Transport Solutions (GMTS) and ENN Canada. Both will source LNG from the most economical supply available looking at the total delivered cost including the natural gas price, liquefaction charges, and transportation costs. Union is also aware of two other parties looking at locating LNG refuelling facilities or transportation assets to serve the Ontario market.

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Reference: Exhibit A / Tab 1 / Page 15

Union has indicated that it will provide liquefaction service under a new Rate L1 rate schedule. How does Union intend to proceed if it does not received approval from the Board to charge a regulated rate but does receive approval to provide the new service? In other words, Union would be free to charge a market or unregulated rate for the new LNG service.

Response:

The primary purpose of the Hagar facility is for system integrity needed to support regulated operations. There is no change to this purpose or operations as a result of this application. The proposal to provide a small amount of interruptible LNG service is a form of asset optimization which will ultimately benefit ratepayers upon rebasing. During the IRM term, the interruptible service and revenue will contribute to regulated earnings, and may affect earnings sharing. For LNG that is used exclusively as a transportation fuel and is therefore subject to regulatory exemption, a new stand-alone plant investment and related services would not be regulated. This is not the case with the Hagar facility. For LNG that is used for purposes other than transportation (i.e. non-exempt), a new stand-alone plant investment and related services should be subject to competitive market and regulatory forbearance determinations.