

IN THE MATTER OF the Ontario Energy Board Act, 1998, S.O. 1998, c.15, Schedule B; and in particular sections 36.1(1), 38(1), 40(1), 90(1), thereof;

AND IN THE MATTER OF an Application by Market Hub Partners Management Inc. and AltaGas Ltd., on behalf of Sarnia Airport Storage Pool Limited Partnership, for an Order designating the area known as the Sarnia Airport Pool, in the Geographic City of Sarnia, County of Lambton, as a gas storage area;

AND IN THE MATTER OF an Application by Market Hub Partners Management Inc. and AltaGas Ltd., on behalf of Sarnia Airport Storage Pool Limited Partnership, for authority to inject gas into, store gas in and remove gas from the area designated as the Sarnia Airport Storage Pool, and to enter into and upon the lands in the said areas and use the said lands for such purposes;

AND IN THE MATTER OF an Application by Market Hub Partners Management Inc. and AltaGas Ltd., on behalf of Sarnia Airport Storage Pool Limited Partnership, to the Ministry of Natural Resources for a license to drill three wells and a license to re-enter and complete one well in the said area;

AND IN THE MATTER OF an Application by Market Hub Partners Management Inc. and AltaGas Ltd., on behalf of Sarnia Airport Storage Pool Limited Partnership, for an Order granting leave to construct natural gas pipelines in the City of Sarnia, in the County of Lambton, and in the County of Lambton.

COMMENTS ON BOARD STAFF PROPOSED CONDITIONS OF APPROVAL

**MARKET HUB PARTNERS MANAGEMENT INC. AND ALTAGAS LTD. ON
BEHALF OF SARNIA AIRPORT STORAGE POOL LIMITED PARTNERSHIP**

1.0 GENERAL

The comments presented herein regarding draft Conditions of Approval ("Draft Conditions") proposed by Board Staff with respect to the Sarnia Airport Storage Pool Project ("Sarnia Airport Pool") proceeding (EB-2008-0002) are submitted by Market Hub Partners Management Inc. and AltaGas Ltd. ("MHP and AltaGas") on behalf of Sarnia Airport Storage Pool Limited Partnership ("SASP LP"), a limited partnership that is being formed under the laws of Ontario (the "Applicant") by respective subsidiaries of MHP and AltaGas. Draft Conditions were proposed by Board Staff in a letter dated May 16, 2008 to the Applicant, Ministry of Natural Resources (the "MNR") and registered Intervenors. Subsequently, a change to Draft Condition 1.8 of the Authorization to Inject, Store and Remove Gas was proposed by Board Staff via e-mail on May 22, 2008.

2.0 BOARD STAFF DRAFT CONDITIONS

The following sets out the Applicant's comments on the Draft Conditions proposed by Board Staff. The Applicant will only address herein those Draft Conditions to which it objects or to which it has identified a need for clarification. All other Draft Conditions are acceptable to the Applicant.

(a) Issuance of Authorizations

MHP and AltaGas made the Applications to the Board on behalf of SASP LP and, until SASP LP is formed under the laws of Ontario, will hold all authorizations granted by the Board on behalf of SASP LP. Section 1 of the Pre-filed Evidence and Schedule 1-1 describe the corporate structure of SASP LP. Once duly formed, SASP LP will own and operate all facilities and interests associated with the Sarnia Airport Pool. In the event that SASP LP has not been formed prior to the issuance of the Board's Decision and grant of Orders in this proceeding, MHP and AltaGas will hold all authorizations on behalf of SASP LP and transfer such authorizations to SASP LP when it has been duly formed. As such, the Applicant respectfully requests that the Board acknowledge in its Decision that MHP and AltaGas intend to transfer the Board's authorizations in this proceeding, in their entirety, to SASP LP and that all authorizations be granted as "MHP and AltaGas, on behalf of SASP LP". MHP and AltaGas further request that the Board exempt MHP and AltaGas from requiring leave or approval of the Board, in accordance with Draft Condition 2.2 of the Authorization to Inject, Store and Remove Gas and Draft Condition 1.3 of the Well Drilling Licences Application, when such authorizations

are transferred in their entirety to SASP LP. MHP and AltaGas will file copies with the Board of the relevant agreement(s) respecting transfer of such authorizations to SASP LP.

(b) Authority to Inject, Store and Remove Gas

Draft Condition 1.1

(i) *Draft Condition 1.1.1*

Draft Condition 1.1.1 would require the Applicant to conduct and file with the Board, MNR and any party or intervenor to the proceeding, prior to commencement of operation of the pool, a thorough evaluation of all subsurface activities and their potential impact on the integrity of the storage facility as required by Section 7.2 of standard CAN/CSA Z341.1-06 *Storage of Hydrocarbons in Underground Formations – Reservoir Storage* (“CSA Z341.1-06”), including assessment of (a) existing or abandon wells within 1 kilometre of the subsurface perimeter of the storage zone, including activities within those wells, such as fracture treatments; (b) existing operations within 5 kilometre radius of the proposed storage scheme, including operation, and minimum and maximum operating pressures; and (c) for any well bore penetrating the storage zone, the integrity of the well, including casing inspections, cement inspections and hydraulic isolation of the zone from any overlying porous zones.

The Applicant notes that Draft Conditions 1.1.1 (a), (b) and (c) mirror the requirements set out in Section 7.2 of CSA Z341.1-06 with the exception that Draft Condition 1.1.1 (c) would also require the Applicant to agree to implement, complete and maintain any work associated with any risk and/or necessary remedial work identified or specified in the evaluation prior to commencement of any injection, storage, or withdrawal.

The Applicant completed and submitted its Assessment of Neighbouring Activities – Sarnia Airport Pool Development (the “Section 7.2 Assessment”) to the MNR in October 2007. Specifically, the Section 7.2 Assessment provides necessary historical information with respect to well drilling and operations within the reservoir (pages 4 – 7) and discusses in detail each part of Section 7.2 of CSA Z341.1-06. The Section 7.2 Assessment is included as Schedule 5-20 in the Pre-filed Evidence and is further addressed in IR OEB – 2. The Applicant respectfully submits, as more fully described below, that the information with respect to Section 7.2 of CSA Z341.1-06 filed in this proceeding is complete such that the Board has the requisite information available to determine that the Applicant has satisfied the requirements set out in Section 7.2 of CSA Z341.1-06, and that Draft Condition 1.1.1 (d) has been satisfied.

Draft Condition 1.1.1 (a)

Section 4 of the Section 7.2 Assessment addresses existing and abandoned wells located within 1 kilometre of the storage zone, including activities within those wells, such as fracture treatments. A total of five wells within the Devonian and Silurian Guelph Formations were identified and evaluated within 1 kilometre of the storage zone (pages 8 – 10). Well information for these five wells is included in Appendix B of the Section 7.2 Assessment. The nearest Devonian well is located approximately 690 metres from the base of gas of the Sarnia Airport Pool reservoir and the Devonian wells are vertically separated by a minimum of 550 metres of rock formation from the Sarnia Airport Pool reservoir. There are no records of any fracture treatments within the Devonian wells. The Section 7.2 Assessment concludes that the three Devonian wells located within 1 kilometre of the storage zone will have no impact on the integrity of the proposed Sarnia Airport Pool storage facility. Two wells penetrate the Silurian Guelph Formation within 1 kilometre of the storage zone (both are located within the proposed Designated Storage Area). No gas shows were recorded in either well and an oil show was recorded in one of the wells in the A1 Carbonate. Both wells were abandoned with all surface casing, and most of the intermediate casing, being pulled and cement plugs placed. From the well records, both wells appear to have been properly abandoned with all porous or fluid bearing formations being isolated with cement to prevent potential communication. There are no records of any fracture treatments within these Silurian Guelph wells. The Section 7.2 Assessment concludes that the two Silurian Guelph wells located within 1 kilometre of the storage zone will have no impact on the integrity of the proposed Sarnia Airport Pool storage facility. The Applicant respectfully submits that existing and abandoned wells within 1 kilometre of the storage zone have been appropriately evaluated and determined to have no impact on the integrity of the proposed Sarnia Airport Pool storage facility. As such, the Applicant respectfully submits that Draft Condition 1.1.1 (a) has been satisfied.

Draft Condition 1.1.1 (b)

Section 5 of the Section 7.2 Assessment addresses subsurface operations within 5 kilometres of the storage zone (page 11). A search of available records shows that there are no subsurface operations, including oil and natural gas production, natural gas storage or brine operations within a 5 kilometre radius of the Sarnia Airport Pool and, as such, the Section 7.2 Assessment concludes that there will be no impact on the integrity of the proposed Sarnia Airport Pool storage facility. Therefore, the Applicant respectfully submits that subsurface

operations within 5 kilometres of the storage zone have been appropriately evaluated and that Draft Condition 1.1.1 (b) has been satisfied.

Draft Condition 1.1.1 (c)

Section 6 of the Section 7.2 Assessment addresses wells that penetrate the storage zone (pages 12-13). Four wells penetrate the storage zone, each of which will be utilized in the storage operations as either an injection/withdrawal well (Air.1; Air.2; and C.8) or observation well (BTS 2-11-VIII). Well information for all wells that penetrate the storage zone is included in Appendix C of the Section 7.2 Assessment. Each of the wells penetrating the storage zone have been assessed and workover plans, or, in the case of Air.1 and BTS 2-11-VIII, specific drilling plans have been developed to ensure that each well meets the requirements of CSA Z341.1-06 (Schedules 6-4 and 6-6). The Applicant respectfully submits that wells that penetrate the storage zone have been adequately assessed and that the specific portion of Draft Condition 1.1.1 (c) related to the Section 7.2 Assessment has been satisfied.

(ii) *Draft Condition 1.1.2*

As provided in the Pre-filed Evidence (page 39), operations and maintenance services for the Sarnia Airport Pool will be subcontracted to Union Gas Limited, which will include responsibility for providing Operation and Maintenance Procedures and an Emergency Response Plan to satisfy the requirements of CSA Z341.1-06. This is similar to the St. Clair Pool where Market Hub Partners Canada L.P. has contracted these same services with Union Gas Limited. The Union Gas Limited Operations and Maintenance Procedures and the Emergency Response Plan were subject to due diligence reviews conducted by Aecon Utility Engineering ("AUE") on behalf of Market Hub Partners Canada L.P. in May/June 2007 and again in February/April 2008. AUE was able to confirm that Market Hub Partners Canada L.P. is compliant with CSA Z341.1-06. MHP and AltaGas subsequently requested that AUE review the Operation and Maintenance Procedures and Emergency Response Plan to determine compliance with CSA Z341.1-06 with respect to the Sarnia Airport Pool. As provided in IR OEB – 4, AUE was able to confirm that the due diligence reviews completed for the St. Clair Pool are relevant to the Sarnia Airport Pool and that the Operations and Maintenance Procedures and the Emergency Response Plan comply with CSA Z341.1-06. The Applicant will adopt the Union Gas Limited Operation and Maintenance Procedures and the Emergency Response Plan as a matter of policy. Specific contact lists, roles and responsibilities, and notification and reporting procedures already exist for MHP in the Emergency Response Plan such that MHP would

require no further contact lists, roles and responsibilities, and notification and reporting procedures for its role as Manager on behalf of SASP LP. However, in accordance with the recommendation of AUE, the Applicant will review the requirement, if any, for further specific contact lists, roles and responsibilities, and notification and reporting procedures with respect to SASP LP prior to the facilities being placed into service. Accordingly, the Applicant respectfully submits that the requisite information has been filed and that Draft Condition 1.1.2 has been satisfied.

(iii) *Applicant Proposed Draft Condition 1.1*

Based on the Applicant's submissions with respect to Draft Conditions 1.1.1 and 1.1.2, the Applicant respectfully submits that the Board can acknowledge in its Decision that the requisite information has been provided to satisfy the requirements of Section 7.2 of CSA Z341.1-06 and to determine that Operation and Maintenance Procedures and the Emergency Response Plan satisfy the requirements of CSA Z341.1-06. Considering that the schedule for delta pressuring (Draft Condition 1.1.3) and the Proposed Reservoir Monitoring Program (Draft Condition 1.1.4) are set out in the Pre-filed Evidence, the Applicant hereby requests that the Board revise Draft Condition 1.1 as follows:

Market Hub Partners Management Inc. and AltaGas Ltd. ("MHP and AltaGas"), on behalf of Sarnia Airport Storage Pool Limited Partnership ("SASP LP"), shall adhere to the evidence filed with the Board in the EB-2008-0002 proceeding. MHP and AltaGas, on behalf of SASP LP, shall comply with all applicable laws, regulations and codes to the satisfaction of the responsible agency pertaining to the construction, operation and maintenance of the proposed project and should evaluations conducted in accordance with those applicable laws, regulations and codes identify any risk and/or specify necessary remedial work, shall implement, complete and maintain such works prior to commencement of any injections.

Draft Condition 1.6

As referenced in IR OEB – 3, the Applicant believes that the reference in Draft Condition 1.6 should be to Section 7.6.2 of CSA Z341.1-06, which states:

7.6.2 Maximum Operating Pressure

The maximum operating pressure for the storage zone shall be:

(a) the discovery pressure of the reservoir; or

(b) a higher pressure that has been shown by caprock testing (as specified in Clause 5.2) not to compromise the integrity of the storage zone. The maximum operating pressure shall not exceed 80% of the fracture pressure of the caprock formation. In the absence of local fracture pressure data, the maximum pressure shall be no greater than 18.1 kPa per metre of depth to the top of the reservoir.

Caprock core samples have been obtained from two wells within the Sarnia Airport Pool reservoir and caprock core testing of both samples has been completed in accordance with Section 5.2 of CSA Z341.1-06. The caprock core testing was carried out to determine threshold pressure, porosity and permeability. Threshold pressure testing measures the pressure at which natural gas can penetrate the caprock. The results of the caprock core testing are discussed in the Pre-filed Evidence (pages 26–27) and IR OEB – 3, and are presented in Schedule 5-16. The results of the threshold pressure testing of the two caprock core samples demonstrate that natural gas could not penetrate the caprock at pressures in excess of 18,000 kPa. This threshold pressure is significantly greater than the proposed maximum operating pressure of 10,685 kPaa to the extent that the proposed maximum operating pressure is less than 60% of the measured threshold pressure. Based on the caprock core testing and the 3D seismic interpretation completed for the Sarnia Airport Pool reservoir, the Applicant respectfully submits that it has demonstrated that the proposed maximum operating pressure does not compromise the integrity of the storage zone in accordance with Section 7.6.2 (b) of CSA Z341.1-06.

Micro-fracture testing completed on well Air.1 in September 2007 was conducted to measure the ability of the caprock to withstand fracturing, thus providing local fracture pressure data. The results of the micro-fracture testing are discussed in the Pre-filed Evidence (pages 27-28), Schedule 5-20 (pages 5-6) and IR OEB – 3. Based on the minimum gradient of 24.43 kPa/m produced in the micro-fracture testing, the maximum operating pressure can be no greater than 19.54 kPa/m of depth to the top of the reservoir (i.e. 80% of the minimum measured gradient), or 13,165 kPaa. This pressure is significantly greater than the proposed maximum operating pressure of 10,685 kPaa and the results of the micro-fracture testing in fact support a maximum operating pressure greater than 15.8 kPa/m of depth to the top of the reservoir. The Applicant therefore respectfully submits that the proposed maximum operating pressure of the Sarnia Airport Pool satisfies the requirements of Section 7.6.2 (b) of CSA Z341.1-06.

Applicant Proposed Draft Condition 1.6

Accordingly, the Applicant respectfully submits that the Board can acknowledge in its Decision that the Applicant has provided the requisite information to determine that the maximum operating pressure of the storage zone can safely exceed the discovery pressure and that the proposed maximum operating pressure of 10,685 kPaa satisfies the requirements of Section 7.6.2 of CSA Z341.1-06. The Applicant hereby requests that the Board revise Draft Condition 1.6 as follows:

MHP and AltaGas, on behalf of SASP LP, shall not operate the Sarnia Airport Storage Pool above a maximum allowed operating pressure representing a pressure gradient of 15.8 kPa/m of depth to the top of the reservoir and shall not operate the Sarnia Airport Storage Pool at a pressure greater than the discovery pressure of 4,014 kPa until leave of the Board is obtained.

Further, the Applicant requests that the Board grant the Applicant leave to operate the Sarnia Airport Pool at the proposed maximum operating pressure in its Decision in this proceeding.

Draft Condition 1.8

Draft Condition 1.8 was revised and re-issued by Board Staff in its e-mail of May 22, 2008. To be consistent with respect to the timing granted in a similar Condition of Approval to the Authorization to Inject, Store and Remove Gas for the St. Clair Pool (EB-2006-0164), the Applicant submits that application for extension of the authority granted under the Board's Order should only be required in the event that injections have not commenced within one year of the proposed in-service date.

Applicant Proposed Draft Condition 1.8

The Applicant hereby requests that the Board revise Draft Condition 1.8 as follows:

Should MHP and AltaGas, on behalf of SASP LP, fail to commence injections into the Sarnia Airport Pool before June 1, 2010, MHP and AltaGas, on behalf of SASP LP, 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 shall be granted.

(c) Well Drilling Licences Application

Draft Condition 3.4

The Applicant notes that the specific section of Schedule 8-1, Environmental and Socio-Economic Assessment, referenced in Draft Condition 3.4 is titled "Storage Pool Environmental Management Plan".

Applicant Proposed Draft Condition 3.4

The Applicant hereby requests that the Board revise Draft Condition 3.4 as follows:

MHP and AltaGas, on behalf of SASP LP, shall implement all the recommendations of the Storage Pool Environmental Management Plan filed as part of Schedule 8-1 of the pre-filed evidence.

3.0 CONCLUSION

Section 2.0 above sets out the Applicant's comments on the Draft Conditions proposed by Board Staff and addresses only those Draft Conditions to which it objects or to which it desires clarification. All other Draft Conditions are acceptable to the Applicant.

The Applicant reserves the right to submit reply argument on or before May 30, 2008 based on submissions from registered Intervenor and other parties to the proceeding.

All of which is respectfully submitted this 23rd day of May 2008.