

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

AND IN THE MATTER OF an application by Union Gas Limited for an order or orders granting leave to construct natural gas pipelines and ancillary facilities in the City of Hamilton, City of Burlington, and the Town of Milton;

AND IN THE MATTER OF an application by Union Gas Limited for an order or orders granting leave to construct a compressor station in the Municipality of Middlesex Centre;

AND IN THE MATTER OF an application by Union Gas Limited for an order or orders for pre-approval of recovery of the cost consequences of all facilities associated with the development of natural gas pipelines and ancillary facilities and the compressor station.

UNION GAS 2016 DAWN-PARKWAY EXPANSION: CAPACITY TURNBACK ISSUES

EB-2014-0261

Prepared for

Canadian Manufacturers & Exporters

Federation of Rental-housing Providers of Ontario

Ontario Greenhouse Vegetable Growers

By

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Union Gas 2016 Dawn-Parkway Expansion: Capacity Turnback Issues

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2 A. Summary and Recommendations

3 Union Gas has applied to the Ontario Energy Board for authorization to expand the
4 capacity of its Dawn-Parkway transmission system by 442,770 GJ/day, at an estimate cost of
5 \$416 million (2016 Expansion). This expansion proposal follows the 433,000 GJ/day, \$224
6 million Brantford-Kirkwall/Parkway D project that is scheduled to be completed in 2015 (2015
7 Expansion). Union Gas is considering additional Dawn-Parkway system expansion projects for
8 2017 and 2018.

9 Union Gas uses the Dawn-Parkway system for distribution services and to provide
10 transportation services for ex-franchise customers. For rate purposes, Union allocates Dawn-
11 Parkway system costs to in-franchise and ex-franchise rate classes using allocation factors
12 based on design day demands. This means that when ex-franchise transportation services
13 decline, a higher percentage of Dawn-Parkway system costs is allocated to in-franchise
14 distribution customers.

15 Union's experience with the Dawn-Kirkwall transportation service shows that ex-
16 franchise customers are able to turn back large blocks of capacity when market conditions
17 change. In this instance, the increase in Marcellus shale gas production in the Northeast U.S.
18 caused deliveries through the Niagara and Chippawa export points to plummet, leading to a
19 steep drop in demand for Union transportation service to Kirkwall. While the demand for
20 transportation services to Parkway is currently strong, there is no guarantee that ex-franchise
21 customers will continue to extend their existing contracts. The same market changes that
22 caused flow reversal at Niagara are also affecting gas exports at Iroquois, putting Dawn-
23 Parkway transportation contracts held by Northeast U.S. LDCs at risk of turnback. As Marcellus
24 production increases, the risk of turnback could also extend to Dawn-Parkway capacity
25 supplying markets in eastern Ontario and Quebec.

26 To address the risk that Dawn-Parkway transportation services for ex-franchise
27 customers may decline before a significant portion of the costs related to the 2016 Expansion
28 has been recovered through rates, the Board should condition its approval of the proposed 2016
29 Expansion to protect the interests of existing Union Gas customers.

1
2 **1. Extend the terms of existing transportation contracts.**

3 Enbridge and Gaz Metro, the ex-franchise transportation customers whose contracts for
4 service in the 2016 Expansion are driving the need for new facilities, should be required
5 to extend the terms of their existing contracts for transportation services on the Dawn-
6 Parkway transmission system to a date that is at least five years from the planned in-
7 service date of the expansion facilities (i.e. October 31, 2021).

8
9 **2. Set a floor on the ex-franchise demand factors used for cost allocation.**

10 To limit the potential for future cost shifting from ex-franchise transportation customers to
11 Union's distribution customers, the projected design day demands that are used to
12 demonstrate the need for the 2016 Expansion facilities should set a floor on the share of
13 Dawn-Parkway system costs that will be allocated to ex-franchise transportation services
14 in future rate proceedings. This requirement should remain in effect for the first ten
15 years that the 2016 Expansion facilities are in service.

16
17 In addition to these two conditions, the Board should provide an opportunity for
18 stakeholders to consider whether a term-up provision similar to the provision that the National
19 Energy Board recently approved for TransCanada PipeLines (TCPL) should apply to future
20 Union Gas expansion projects.

21
22 **B. Dawn-Parkway Expansion Projects**

23 The Dawn-Parkway system is 229 km long, with a design day capacity of 6.8 PJ/day.¹
24 The Dawn-Parkway system includes high pressure pipelines, compression at Dawn, Lobo,
25 Bright, and Parkway, and measuring and regulating facilities at Dawn, Kirkwall, and Parkway.
26 Union Gas uses the Dawn-Parkway system for in-franchise distribution services, and to provide
27 transportation services for ex-franchise customers under Rate M12 and Rate C1.

28 The most recent expansion of the Dawn-Parkway system was completed in 2008. After
29 several years without major construction, Union Gas has initiated a new round of expansion
30 projects. In January 2014 the Board approved Union's proposal to add 433,000 GJ/day of
31 capacity in 2015 by installing 14 km of transmission pipeline between Brantford and Kirkwall,
32 and adding compression at Parkway. These facilities are based on an expected net increase in
33 ex-franchise transportation service of 440,252 GJ/day (657,784 GJ/day of new service minus

¹ Exhibit B.LPMA.03, Attachment 1

217,532 GJ/day of projected turnback).² This project also provides 70,157 GJ/day of additional capacity at Parkway to supply distribution customers in Union's Northern and Eastern operating areas. The updated cost estimate for these facilities is \$224 million (\$108 million for Parkway D and \$116 million for Brantford-Kirkwall).³

Table 1: Ex-Franchise Transportation Contracts Supporting the 2015 Expansion

Shipper	Capacity (GJ/d)	From	To	Expires
Enbridge	400,000	Dawn	Parkway	10/31/2025
Gaz Metro	257,784	Dawn	Parkway	10/31/2025
Total	657,784			

In this proceeding, Union proposes to expand the capacity of the Dawn-Parkway system by another 442,770 GJ/day in 2016. The 2016 Expansion includes 20 km of pipeline between Hamilton and Milton and a third compressor at the Lobo station. The estimated cost for these facilities is \$415.7 million (\$169.9 million for Lobo C and \$245.8 for Hamilton-Milton).

The need for the 2016 Expansion is supported by new contracts for 351,242 GJ/day of ex-franchise transportation service from Dawn and Kirkwall to Parkway for Enbridge, Gaz Metro and TCPL, and a requirement for 167,915 GJ/day of additional capacity at Parkway for Union distribution customers. The in-franchise requirement includes 91,387 GJ/day of capacity for sales service and bundled direct purchase customers in Union South, 47,413 GJ/day of capacity for sales service and bundled direct purchase customers in the Northern and Eastern operating areas, and 29,115 GJ/day for unbundled direct purchase customers who have contracted for Union's new Northern T-Service. Most of the in-franchise requirement replaces TCPL long-haul contracts that will either be terminated or converted to short-haul service from Parkway.

Table 2: Ex-Franchise Transportation Contracts Supporting the 2016 Expansion

Shipper	Capacity (GJ/d)	From	To	Expires
Enbridge	170,000	Dawn	Parkway	10/31/2031
Gaz Metro	144,941	Dawn	Parkway	10/31/2031
TCPL	36,310	Kirkwall	Parkway	10/31/2031
Total	351,242			

On December 12, 2014 Union announced a binding open season for up to 650,000 GJ/day of incremental firm capacity on the Dawn-Parkway system beginning in 2017, and up to

² EB-2013-0074 Application, Section 8, page 4

³ The cost estimate for the Brantford-Kirkwall pipeline has increased from \$96 million to \$116 million [EB-2014-0271, Exhibit B.Staff.3].

1 550,000 GJ/day of capacity in 2018. The minimum contract term for new transportation
2 services resulting from this open season is 15 years.

3 The principal driver for the current round of Dawn-Parkway expansion projects is Ontario
4 and Quebec LDCs converting from long-haul transportation from Alberta to short-haul
5 transportation from Dawn and Niagara. In fact, it appears that the 2015 Expansion and 2016
6 Expansion are only needed to provide ex-franchise transportation services, since nearly all of
7 the distribution customer requirement of 238,072 GJ/day could have been met using the
8 217,532 GJ/day of projected turnback.

9 10 C. Implications for Union Gas Rates

11 An expansion of the Dawn-Parkway system affects the rates for both distribution
12 services and ex-franchise transportation services. For rate purposes, Union separates Dawn-
13 Parkway system costs into two categories: Dawn Station costs and Dawn-Trafalgar Easterly
14 costs. Dawn Station costs are allocated to distribution services and ex-franchise transportation
15 services based on the design day quantities that Union expects to be sourced from Dawn.
16 Dawn-Trafalgar Easterly costs, with the exception of Kirkwall Station costs, are allocated based
17 on distance-weighted design day demands. Kirkwall Station costs are allocated based on the
18 design day quantities that are expected to flow through Kirkwall.

19 In the cost study that was used for Union's 2013 rate rebasing, 78% of Dawn Station
20 costs and 84% of Dawn-Trafalgar Easterly costs were allocated to ex-franchise transportation
21 services.⁴ The reallocation of Kirkwall Station costs for 2015 rates resulted in 98% of these
22 costs being allocated to ex-franchise services.⁵

23 Because Union does not separate the Dawn-Parkway facilities that are used to provide
24 ex-franchise transportation services from facilities that are built for in-franchise distribution
25 customers, either physically or through an accounting separation of assets, the costs of Dawn-
26 Parkway system expansion facilities that become unutilized are allocated to all customers that
27 remain on the system, including in-franchise distribution customers.⁶

28 Union's experience with the Dawn-Kirkwall transportation service shows that ex-
29 franchise transportation customers can turn back large amounts of Dawn-Parkway system
30 capacity over a relatively short period of time when market conditions change. Union has

⁴ EB-2011-0210, Exhibit G3, Tab 5, Schedule 23.

⁵ EB-2014-0271, Exhibit A, Tab 1, page 4.

⁶ "In the future, should there be turnback of the Dawn to Parkway capacity associated with the Project and Union is unable to repurpose that capacity, Dawn Parkway System costs will continue to be allocated to both in-franchise and ex-franchise rate classes based on their distance weighted design day demands." Exhibit B.CME.2, page 2 of 3.

received termination notices for more than 1.1 PJ/day of Dawn-Kirkwall service since 2008.⁷ Union has been able to use this turned-back capacity to provide additional Dawn-Parkway and Kirkwall-Parkway transportation services, reduce direct purchase customers' delivery obligations at Parkway, and meet in-franchise growth. However, there is no guarantee that Union Gas will be able to repurpose future capacity turnback to avoid shifting the costs of unutilized Dawn-Parkway capacity to its remaining customers.

D. Dawn-Parkway Turnback Risk

Union Gas identifies the contracts held by Northeast U.S. LDCs as the primary source of turnback risk on the Dawn-to-Parkway transportation path.⁸ These companies hold contracts for 528,858 GJ/day of transportation service from Dawn to Parkway, which is about 15% of the Dawn-Parkway service that Union Gas currently has under contract to ex-franchise transportation customers (Table 3). Most of this capacity (488,473 GJ/day) is part of a longer transportation path that extends through the Iroquois export point to LDC citygates in New York and New England. The other 39,385 GJ/day is held by U.S. LDCs that are directly connected to TCPL (Vermont Gas and St. Lawrence Gas). Northeast U.S. LDCs also hold 52,753 GJ/day of TCPL Dawn-East Hereford transportation service. This gas flows to New England markets on the Portland Natural Gas Transmission System.

Table 3: Dawn-Parkway Transportation Service for Ex-Franchise Shippers⁹

Shippers	December 2014 (GJ/day)	November 2015 (GJ/day)
Enbridge	2,157,173	2,557,173
Northeast U.S. LDCs	528,858	528,858
Ontario Power Generators	335,154	335,154
TransCanada	310,798	310,798
Gaz Metro	285,000	542,784
BP Canada	20,000	0
Utilities Kingston	13,435	13,435
Total	3,650,418	4,288,202

All of the Dawn-Parkway transportation contracts held by Northeast U.S. LDCs with expiration dates in 2016 were recently extended to October 31, 2017. However, there are several reasons that the turnback risk associated with these contracts is likely to increase.

⁷ Exhibit A, Tab 6, page 2.

⁸ Exhibit A, Tab 7, page 23.

⁹ Union Gas December 2014 Index of Customers Report and EB-2013-0074. These numbers include Rate M12-X contracts. Another 120,436 GJ/day of Rate M12 Dawn-Parkway capacity is held by in-franchise customers located in Union South.

1
2 1. Lack of long term commitments

3 The contracts for Dawn-Parkway transportation service that are held by Northeast U.S.
4 LDCs have reached, or will soon reach, the end of their primary terms. Three-fourths (371,180
5 GJ/day of 488,473 GJ/day) of the Dawn-Parkway capacity on the Iroquois path expires on
6 October 31, 2017, and all of these contracts expire by the end of 2019. The expiration profiles
7 for the upstream and downstream transportation services on Vector Pipeline and TCPL that are
8 related to these contracts are similar.

9
10 Table 4: Dawn-Parkway Capacity Held by U.S. LDCs Shipping Through Iroquois
11 (GJ/day)

Transportation Path	Expiration			
	2017	2018	2019	Total
New York via IGTS	211,178	52,989	-	264,167
New England via IGTS	160,002	43,700	21,604	224,306
Total	371,180	96,689	21,604	488,473
Percent	76%	20%	4%	100%

12 Union Gas Index of Customers Report, December 2014
13
14

15 2. New pipeline projects to deliver Marcellus shale gas to Northeast U.S. markets

16 The Iroquois Gas Transmission System was designed to deliver Canadian gas to
17 markets in the New York and New England. IGTS has interconnections with Dominion
18 Transmission and Tennessee Gas Pipeline (TGP) in upstate New York and connects with
19 Algonquin Gas Transmission in Connecticut. However, because IGTS operates at a higher
20 pressure, IGTS cannot receive gas from Dominion or TGP. Consequently, the only way that
21 shippers can fully utilize their IGTS capacity during peak periods is to deliver 1.2 PJ/day into
22 IGTS from TCPL at the Canadian border.

23 New pipeline projects that are currently in development will reduce IGTS shippers'
24 dependence on Canadian pipeline services upstream of Iroquois. The Constitution Pipeline is a
25 new 124-mile pipeline that will deliver up to 650,000 Mcf/day from the Marcellus producing area
26 in north-central Pennsylvania into IGTS and TGP at Wright, NY. This project, which was
27 recently approved by the Federal Energy Regulatory Commission (FERC), is expected be in
28 service in 2016. The New Market Project will expand the existing Dominion Transmission
29 system to provide transportation from Leidy, PA to upstate New York. This project, which also
30 has a planned in-service date in 2016, includes a new compressor station that will allow

Dominion to inject gas into IGTS. A third project proposed by TGP would deliver another 1.0 Bcf/day to the interconnection between TGP and IGTS at Wright, NY as early as 2018.

Table 5: Pipeline Projects Transporting Marcellus Shale Gas to IGTS

	Constitution Pipeline	New Market Project	Northeast Energy Direct
Sponsor(s)	Williams, Cabot, Piedmont, WGL	Dominion Transmission	Tennessee Gas Pipeline
Capacity	650,000 Mcf/day into IGTS at Wright, NY	82,000 Mcf/day into IGTS (plus 30,000 to Schenectady, NY)	600,000-1,000,000 Mcf/day to Wright, NY (supply segment)
Shippers	Marcellus producers (Cabot, Southwestern)	New York LDCs	Agreements with New England LDCs
Recourse Rate (100% Load Factor)	\$0.6453/MMBtu	\$0.7437/MMBtu	Not known
Planned Start Date	2016	November 2016	November 2018
Status	Approved December 2014 ¹⁰	FERC application filed June 2014 ¹¹	Started environmental review ¹²

3. Rate Increases for Transportation Services between Dawn and Iroquois

Union is projecting a 27% increase in Dawn-Parkway tolls, from \$0.080/GJ in 2014 to \$0.102/GJ in 2018.¹³ TCPL's interim 2015 tolls and abandonment funding surcharge that became effective on January 1, 2015 raised the average daily demand cost of TCPL Parkway-Iroquois transportation service from \$0.318/GJ to \$0.516/GJ, an increase of 62%. These rate increases cause gas supplies sourced at Dawn to be less competitive in New York and New England markets when compared with new Marcellus shale gas supplies.

The impact of the most recent increases in Union and TCPL tolls on the cost of gas delivered into IGTS to supply Northeast U.S. markets is illustrated by Table 6. In 2014, the average daily fixed cost of Dawn-Iroquois transportation capacity on Union Gas and TCPL was US\$0.38 per MMBtu, which was significantly lower than the publicly-announced rates for transportation service from the Appalachian producing area into IGTS on Constitution Pipeline or Dominion's New Market Project. Although the difference in fixed transportation costs did not fully offset the relatively lower projected price of gas in the Appalachian region compared to Dawn if Dawn was used as an annual baseload supply, the estimated delivered-to-IGTS cost of Dawn supply (US\$1.77/MMBtu) was lower than the incremental delivered cost of Marcellus gas (US\$2.35/MMBtu to US\$2.71/MMBtu) if Dawn was used for winter season supply (the

¹⁰ FERC Docket No. CP13-499

¹¹ FERC Docket No. CP14-497

¹² FERC Docket No. PF14-22

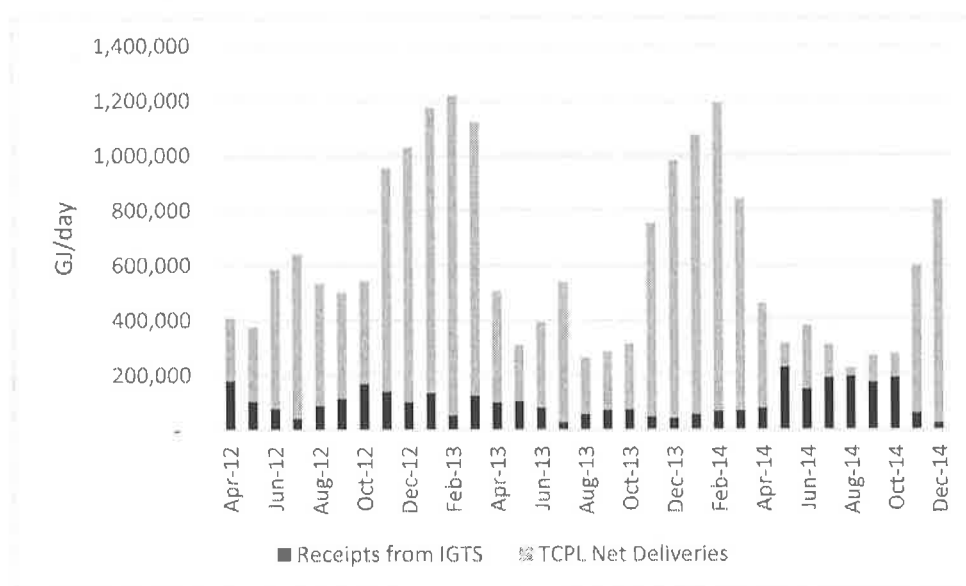
¹³ Exhibit A, Tab 10, page 8.

equivalent of 90 days per year). This winter supply scenario is consistent with the way that gas delivered through IGTS has been used in recent years (Figure 1).

Table 6: Delivered Cost of Gas into IGTS (US\$/MMBtu)

	Transportation Path		Pipeline Fixed Cost	Basis vs. NYMEX	Gas Cost into IGTS	
					365 Days	90 Days
1	Dawn-Iroquois	2014 Tolls	0.38	+ 0.25	+ 0.63	+ 1.77
2	Dawn-Iroquois	2015 Tolls	0.57	+ 0.25	+ 0.82	+ 2.55
3	Constitution Pipeline	Recourse Rate	0.65	- 0.25	+ 0.40	+ 2.35
4	DTI New Market Project	Recourse Rate	0.74	- 0.25	+ 0.49	+ 2.71

Figure 1: TCPL Scheduled Deliveries and Receipts at Iroquois



TCPL Gas Day Summary Report

At 2015 tolls, the average fixed cost of Dawn-Iroquois transportation capacity increases to US\$0.57 per MMBtu. Comparing line 2 of Table 6 with lines 3 and 4, this appears to eliminate the cost advantage of gas sourced at Dawn relative to gas sourced in the Marcellus producing area and delivered into IGTS using new pipeline capacity, even as a winter season supply.

This cost comparison is approximate, since it does not factor in pipeline fuel or other variable charges. The comparison also uses recourse rates, which are generally higher than the actual negotiated rates paid by the shippers for new interstate pipeline projects in the U.S. The projected basis of US\$0.50/MMBtu between the Appalachian producing area and Dawn is

1 consistent with the ICF International basis projections that were included with Union's
2 application, but price projections are obviously subject to change.¹⁴

3
4 It is not certain how much of the roughly 500,000 GJ/day of Dawn-Parkway
5 transportation capacity that is currently held by Northeast U.S. LDCs will be turned back, or
6 when the turnback would occur. The LDCs shipping on IGTS are unlikely to terminate upstream
7 transportation arrangements before replacement supplies are available, which is not expected
8 to occur before 2016. This suggests that contracts that are currently scheduled to expire in
9 October 2017 will be extended, but that U.S. LDCs could begin giving notice of termination in
10 2016 for contracts expiring in October 2018 if pipeline projects currently in development
11 continue to progress. The fact that turnback notification may not occur until after the 2016
12 Expansion is in service and additional Dawn-Parkway expansions have been approved only
13 increases the risk of over-building during the current round of expansions.

14 Finally, as Marcellus shale gas production continues to grow, markets in Quebec and
15 eastern Ontario may be able to reduce delivered gas costs by turning back Dawn-Parkway
16 transportation service and replacing gas delivered through Dawn with Marcellus gas imported
17 through Iroquois. Gas produced in the Northeast U.S. is expected to provide a greater share of
18 the gas consumed in eastern Canada, and Iroquois provides a more direct route from the
19 Marcellus producing areas in Pennsylvania to markets in Quebec than transportation paths that
20 flow through Niagara or Dawn. Although the Iroquois path is not currently a viable alternative
21 for Canadian markets—the interconnection at Iroquois does not allow gas to physically flow
22 from IGTS into TCPL—this is expected to change.¹⁵ TCPL is offering Iroquois as a receipt
23 point in its 2017 new capacity open season, and IGTS has proposed a project to reverse flows
24 on the U.S. side of the border.¹⁶ In recent filings at the NEB, TCPL has described changes in
25 market activity that indicate that “Iroquois is trending toward becoming a physical receipt point
26 into the Mainline system.”¹⁷ TCPL’s long-term market study projects that Iroquois will become a
27 net import point on an average annual basis as early as 2018.¹⁸

¹⁴ Exhibit A, Tab 5, Attachment 1, page 29. A recent ICF presentation projects an average 2015 to 2025 basis of \$0.25 for Dawn and -\$0.60 for the Appalachian area [“Future Trends: Assessing Ontario Natural Gas Market Requirements through 2020”, EB-2014-0289, November 25, 2014].

¹⁵ TCPL does receive gas at Iroquois today, but only by displacing gas that is scheduled for delivery to Iroquois.

¹⁶ The IGTS South-to-North (SoNo) project would provide up to 300,000 Mcf/day of transportation service to the Canadian border as early as November 2016.

¹⁷ RH-001-2014, Written Reply Evidence of TransCanada, pp. 20-22 (August 22, 2014).

¹⁸ Energy East Project Application, page 5-18 (October 2014).

E. Actions to Mitigate Turnback Risk

To address the risk that ex-franchise customers will turn back Dawn-Parkway transportation capacity before a substantial portion of the costs related to the 2016 Expansion has been recovered through rates, the Board should condition its approval of the 2016 Expansion. First, the Board should require the ex-franchise transportation customers whose new contracts are causing the 2016 Expansion to be built to extend the terms of their existing transportation contracts on the Dawn-Parkway system to reduce the potential for turnback. Second, the Board should limit the potential for Dawn-Parkway system costs to be reallocated from ex-franchise transportation customers to in-franchise distribution customers in future rate cases if turnback causes capacity to be unutilized.

1. Contract Term

Union has set the initial term for new contracts using the 2016 Expansion facilities at 15 years. This is an increase from the 10-year term used for the 2015 Brantford-Kirkwall/Parkway D expansion, and is consistent with the minimum initial term used by TCPL. However, if an expansion project customer already has other contracts for service on the same transportation path, a 15-year term for a new contract does not actually create a 15-year commitment for the new capacity, since the shipper can reduce his total contract capacity whenever one of the shipper's existing contracts expires.

For the 2015 Expansion, Union Gas and Enbridge negotiated an arrangement that addressed this issue to a considerable extent. Enbridge agreed to extend the expiration date of its largest Dawn-Parkway M12 contract (for 1,764,678 GJ/day) from 3/31/2014 to 10/31/2022, and to provide notice to renew or terminate this contract five years before the expiration date, instead of the standard two years¹⁹. As a result of this agreement, only 9% of Enbridge's existing Dawn-Parkway transportation service is currently schedule to expire before 2022 (Table 7).²⁰

Table 7: Enbridge Dawn-Parkway Transportation Capacity as of December 2014

2017	2018	2019	2022	Total
29,395 GJ	106,000 GJ	57,100 GJ	1,964,678 GJ	2,157,173 GJ
1%	5%	3%	91%	100%

¹⁹ EB-2013-0074 Application, Section 7, page 12.

²⁰ Enbridge also holds 67,929 GJ/day of Dawn-Kirkwall transportation service that expires 10/31/2017.

Union Gas has not entered into the same type of arrangement with Gaz Metro, despite the fact that more than three-fourths of Gaz Metro's existing Dawn-Parkway capacity is scheduled to expire in 2017 (Table 8).²¹ If the 2015 Expansion and 2016 Expansion are completed as planned, Gaz Metro will have 687,725 GJ/day of Dawn-Parkway capacity as of 11/1/2016, but could reduce its capacity by 163,979 GJ/day on 4/1/2017 and by an additional 56,021 GJ/day on 11/1/2017. Under this scenario, the effective term of the 144,941 GJ/day of additional transportation service that Gaz Metro has reserved in the 2016 expansion could be as short as 5 months.

Table 8: Gaz Metro Dawn-Parkway Transportation Capacity as of December 2014

2017	2027	Total
220,000 GJ	65,000 GJ	285,000 GJ
77%	23%	100%

There is no evidence that Enbridge and Gaz Metro intend to turn back Dawn-Parkway service in the near future, but there is also no reason that these customers should retain the option to do so. This loophole undermines Union's assertion that the 2016 Expansion is underpinned by long-term commitments with ex-franchise customers.²² As a condition of approving the 2016 Expansion, the Board should require Enbridge and Gaz Metro to extend the terms for all of their Dawn-Parkway and Dawn-Kirkwall contracts to a date that is at least five years later than the planned in-service date for the 2016 Expansion (i.e. October 31, 2021).²³

2. TCPL Term-Up Provision

In the RH-001-2014 Decision, the NEB approved a new term-up provision that can be triggered whenever TCPL is planning a significant system expansion. Beginning in March 2015, TCPL will be able to require all existing shippers whose contracted capacity could be used to reduce the need to build expansion facilities to extend their existing contracts to a date that is at least five years later than the expected in-service date of the expansion facilities in order to maintain their renewal rights. If a shipper chooses not to extend, the contract will expire at the end of the current term.

²¹ Exhibit B.OGVG_FRPO_CME.5

²² Exhibit B.CME.2, page 2

²³ This recommendation does not include TCPL because it appears possible that Union would be able to provide 36,310 GJ/day of Kirkwall-to-Parkway transportation service without the 2016 Expansion.

1 In approving the term-up provision, the NEB noted the risk of building new pipeline
2 capacity that may later become unutilized:

3 "The Board notes that TransCanada has been making efforts to manage the Mainline
4 and respond to shippers' requests to contract for more short-haul transportation to
5 access the Dawn hub and new gas supplies from the Marcellus and Utica basins. The
6 transition to this new regime causes a great deal of uncertainty and would require new
7 facilities to be built. The Board finds that additional information will enable TransCanada
8 to navigate this transition more smoothly, and to build less redundant infrastructure that
9 could become unnecessary in the first few years of operation if existing shippers were to
10 stop shipping on the Mainline."²⁴

11 Given the similarities between Union's situation and the situation faced by TCPL, the
12 Board should provide an opportunity for stakeholders to consider whether a term-up provision
13 like the provision approved for TCPL should be implemented by Union Gas for future expansion
14 projects.

15 3. Dawn-Parkway System Cost Allocation

16 It is not unusual for regulators considering an application to construct new facilities to
17 place conditions on future cost recovery or rates to limit potential cost impacts on existing
18 customers, particularly when there is a risk that the facilities may become unutilized. For
19 example, in the GH-R-1-92 decision, the National Energy Board had concerns about the
20 upstream storage and transportation arrangements supporting Rochester Gas and Electric's
21 requirement for transportation service on the Blackhorse Extension facilities. To address this
22 concern, the NEB made TCPL responsible for unrecovered demand charges associated with
23 these volumes over the first 15 years of the project.²⁵

24 In the United States, FERC policy is that the pipeline is responsible for the costs of new
25 capacity that is not fully utilized, unless it agrees up-front with the shippers that will benefit from
26 the new facilities that these shippers will to assume all or part of the risk.

27
28 "The threshold requirement in establishing the public convenience and necessity for an
29 existing pipeline proposing an expansion project is that the pipeline must be prepared to
30 financially support the project without relying on subsidization from its existing
31 customers."²⁶

32
33 To protect existing customers from unutilized capacity, FERC generally requires the pipeline to
34 set rates based on the design capacity of the pipeline facilities, not the actual contracted
35

²⁴ RH-001-2014 Reasons for Decision, page 13.

²⁵ GH-R-1-92 Decision, page 18.

²⁶ FERC Statement of Policy on Certification of New Interstate Natural Gas Pipeline Facilities, 88 FERC ¶ 61,227 (1999).

1 quantities, if the capacity is not fully subscribed. This requirement applies to initial rates and to
2 subsequent rate cases.

3 In its decision approving the Enbridge GTA Project, the Board recognized that
4 “distribution customers should not automatically bear the costs associated with incremental
5 capacity added to serve transportation customers”.²⁷ The Board did not agree that Enbridge
6 shareholders should be at risk for transportation customers’ share of the revenue requirement
7 for the Segment A pipeline if the start of transportation service on the pipeline is delayed, but
8 also rejected the idea that all of these costs should be borne by distribution customers. To limit
9 the costs that would be shifted to distribution customers, the Board determined that if the start of
10 transportation services using the Segment A pipeline is delayed, the incremental revenue
11 requirement associated with facilities that would not have been needed if Enbridge had built the
12 Segment A pipeline only for distribution services will be put into a deferral account for eventual
13 recovery from transportation customers.

14 The risk of cost shifting caused by the turnback of Dawn-Parkway transportation
15 services is similar to the Enbridge Segment A problem, but with different timing. Instead of
16 being concerned about the recovery of costs incurred for transportation customers before these
17 customers commence service, the issue is the recovery of costs incurred to provide ex-
18 franchise transportation services after ex-franchise customers have left the system.

19 In this case, the Board should ensure that Union’s distribution customers will not
20 automatically bear a higher share of Dawn-Parkway transmission system costs if the demand
21 for ex-franchise transportation services declines by putting conditions on the cost allocation
22 factors that will be used to apportion costs between in-franchise and ex-franchise rate classes in
23 future rate proceedings. In particular, until a substantial portion of the capital costs of the
24 project have been recovered through rates, the allocation factor should be based on a level of
25 transportation demand that is no lower than the demand projection that is used to show the
26 need for the 2016 Expansion in this proceeding. This condition would apply to both the
27 distance weighted design day demand allocation factor (DTTRANS) and the Dawn Station
28 demand factor (DAWNCOMP), and would remain in effect for a period of ten years from the
29 date the 2016 Expansion facilities are placed in service.

30 To illustrate, Table 9 shows the distance weighted demand factors used for the 2013
31 rate rebasing and the estimated demand factors for 2016-17 based on the projected Dawn-
32 Parkway system design day demands. Under this proposal, if during the period the cost
33 allocation condition is in effect, the total distance-weighted design day demand is less than

²⁷ EB-2012-0451 Decision and Order, page 51.

36,854 $10^6\text{m}^3 \times \text{km}$, and the ex-franchise demand factor is less than 29,581 $10^6\text{m}^3 \times \text{km}$, the ex-franchise demand factor would be increased to make up the shortfall in the total demand factor, up to the 2016-17 projected ex-franchise demand of 29,581 $10^6\text{m}^3 \times \text{km}$.

Table 9: Dawn-Parkway Distance Weighted Design Day Demands ($10^6\text{m}^3 \times \text{km}$)

	2013 ²⁸	2016 ²⁹
In-franchise	5,180 (16%)	7,273 (20%)
Ex-franchise	26,557 (84%)	29,581 (80%)
Total	31,737 (100%)	36,854 (100%)

This condition would avoid a situation in which distribution customers are required to backstop Dawn-Parkway system costs because turnback by ex-franchise transportation customers creates unutilized capacity. The unutilized capacity would remain with the ex-franchise rate class for cost allocation purposes. However, if the ex-franchise demand for Dawn-Parkway transportation services does not decline, or in-franchise customers are able to utilize the ex-franchise transportation capacity that is turned back, this condition would have no effect on cost allocation or rates.

²⁸ Exhibit A, Tab 10, page 5.

²⁹ Calculated based on Exhibit A, Tab 8, Schedule 2, modified for October 2014 Dawn-Kirkwall renewals.