January 16, 2015

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: EB-2014-0289 – Union Gas Limited – 2014 Natural Gas Market Review ("NGMR") Submission

On September 19, 2014, the Ontario Energy Board (the "Board") issued a letter stating that written comments relating to the NGMR were to be provided by January 16, 2015. Attached is the written submission of Union Gas Limited.

If you have any questions, please contact me at 519-365-0450.

Yours truly,

[Original signed by]

Chris Ripley
Manager, Regulatory Applications

c.c.: Crawford Smith, Torys

Submission of Union Gas Limited

The North American natural gas market continues to undergo significant changes. These changes have, and will continue to have, far-reaching implications on the Ontario natural gas market. In recent years, the Ontario natural gas market has experienced decreased reliance on Western Canadian Sedimentary Basin ("WCSB") supplies (including near term changes to reduce reliance on Empress-based supply and long haul transportation in favour of Dawn-based supply and short haul transportation), the emergence of new alternative supply sources and, changes in the physical flow of gas across and around the province of Ontario. These continuing changes represent both a challenge and an opportunity for the Ontario natural gas market.

To better understand the implications of recent developments regarding North American natural gas supply, the Ontario Energy Board ("the Board") initiated the 2014 Natural Gas Market Review – EB-2014-0289 ("NGMR") to assess how the natural gas market in Ontario is responding or adapting to changing market conditions. Through the NGMR, the Board had the specific objectives of identifying the potential need for modifications to the Board's regulatory framework/policies; and review utility applications that affect the rates and quality of service to customers.

On November 27, 2014, the Board released two reports: *Winter 2013/14 Natural Gas Price Review* and *2014 Natural Gas Market Review,* both written by Navigant Consulting, Inc. ("Navigant"). The first report analyzed the gas market events of last winter, focusing on the variables and factors that affected Ontario natural gas supply, demand and prices of the Winter 2013/2014 period. The second report provided analysis and insight into the current state of the North American and Ontario gas market, and provided an outlook of the expected state of the Ontario gas market in the future.

On December 3-4, 2014, stakeholders participated in a Stakeholder Conference at which time views on the report, the issues in the Ontario gas market, and the appropriate

regulatory response were discussed. Stakeholders were also invited to submit written comments.

The following is the written submission of Union Gas Limited ("Union"). Union's submission focuses on an overview of the Winter 2013/2014, what it sees as necessary to ensure that the Ontario natural gas market remains efficient and also responds to issues raised during the NGMR Stakeholder Conference by other participants.

I/ EXECUTIVE SUMMARY

Based on Union's experiences with the warmer than normal winter of 2011/2012 and the colder than normal winter of 2013/2014, Union's gas supply planning processes and the gas supply system are designed to efficiently and cost effectively meet the demands of Union's customers.

Natural gas infrastructure in Ontario needs to allow for the effective movement of gas to and from the Dawn Hub, and the regulatory environment needs to be supportive of market developments. New infrastructure is required to and within Ontario to access new supply sources in Appalachia through incremental short haul transportation services.

Union believes that the Board should ensure that its review and approval process is efficient, including incentive for negotiated settlement of issues to reduce hearing time. Union also believes that the Board should publically support an accelerated federal regulatory process, specifically accelerated decisions (60 day maximum) from the National Energy Board ("NEB") regarding projects for new facilities such as TransCanada's King's North Project and the Vaughan Loop Project that align with other needed Ontario natural gas infrastructure. Coordination between federal and provincial projects should not include approvals conditioned upon the Decisions of other regulators.

Union supports the majority of the Energy East Project and, done right, Energy East could be a project that benefits all of Canada. Union supports the redeployment of

underutilized Mainline natural gas assets in the Prairies and on the Northern Ontario Line (between Empress, Alberta and North Bay, Ontario) which will benefit both natural gas and oil shippers.

Union does not support the proposed redeployment of the TransCanada natural gas pipeline situated between North Bay and Ottawa in the Eastern Ontario Triangle. Union and the other Eastern LDCs are concerned with insufficient capacity for all markets using the Eastern Ontario Triangle and the cost risks resulting from TransCanada's proposal. Union looks forward to participating in the Board's Energy East consultative at the end of January and plans to actively participate in the NEB proceedings related to Energy East and the Eastern Mainline Project.

Union continues to investigate and enhance its services and has formed focus groups to consult with its customers on issues such as the unobligated DCQ and services for its Union North power generation customers.

II/ WINTER 2013/2014

At the Stakeholder Conference, Union provided its view of the extremely cold and unprecedented weather conditions experienced during the 2013/2014 winter causing record demand and record draws on storage over wide areas of North America. Similar views were shared by others as it related to the severity of the weather and the drivers for the increased demand and resulting prices.

Union's gas supply planning and processes are based on well accepted practices and were reviewed in detail by an independent third party consultant and presented to and accepted by the Board in 2013 (EB-2013-0109). In addition, Union presents and reviews its gas supply plan with stakeholders at Union's annual stakeholder meeting as referenced in Union's 2014-2018 Incentive Regulation Mechanism Settlement Agreement (EB-2013-0202).

To the extent that the winter of 2013/2014 was one of the coldest on record, the winter of 2011/2012 was one of the warmest. The ongoing gas supply plan has to be able to meet annual, seasonal and peak day needs and be flexible enough to be able to manage variances in demand caused by either colder or warmer than normal weather.

Union relies on both internal control points to manage the level of storage required to meet the needs of bundled customers as well as contractual balancing checkpoints for Union South bundled direct purchase customers to ensure their storage levels also meet the control point requirements. Union plans its storage operations so as to be full by October 31, assuming normal weather, and then plans for sufficient gas in storage at March 1 to meet peak deliverability needs and sufficient gas in storage until March 31, where it is assumed to be empty (except for 6 PJ of integrity gas). Union's South bundled direct purchase customers have a September 30 checkpoint in which their Banked Gas Account "BGA" balance (which is use of Union's storage) cannot be in excess of their forecast, a contract renewal balance point (primarily October 31) in which they cannot exceed a positive and negative contractual variance, and an end of February checkpoint in which their balance cannot be below the level planned. These control points and checkpoints ensure the overall system is physically protected throughout the year. Should demands be higher than forecast beyond February 28, Union may still buy gas to balance bundled direct purchase customers. In this case, Union would buy spot gas when there was a physical requirement to supplement additional demand and the additional draw on storage, to ensure reliability of service, as was the case during the winter of 2013/2014. At the Stakeholder Conference, Union presented and discussed how the integrated storage at Dawn responded very well and was the workhorse that allowed the market to manage the incremental demands as well as the reduced upstream supplies experienced.

The effectiveness of Union's gas supply plans and the associated processes were demonstrated, both in the winter of 2013/2014 and in the winter of 2011/2012. In each of these cases Union was able to effectively manage the costs consequences to its sales service customers in the two most extreme winters over the last 45 years. The winter of

2011/2012 was one of the warmest on record while the winter of 2013/2014 was one of the coldest on record. The added costs to Union's customers to manage the excess assets during the winter of 2011/2012 were just over $5.4 million or under $6 per average residential customer. To manage this warm winter, Union needed to release and sell unnecessary upstream pipeline capacity that was no longer needed to other market participants to recover as much market value as possible. This resulted in the effective mitigation of over 24 PJ of unutilized upstream transportation capacity due to a winter that was approximately 15% warmer than normal.

The winter of 2013/2014 on the other hand, required Union to purchase an additional 30 PJ of spot gas to meet the needs of customers due to a winter that was approximately 20% colder than normal, at an added cost of approximately $40 per average residential customer. When compared to an average annual residential gas bill of in excess of $800, this impact works out to be less than 5%. In each of the extreme cases encountered in the last two of three winters, Union's planning processes and system worked well.

Lessons Learned from the Winter 2013/2014

The one acknowledged lesson learned was the need for a heightened level of communication when large changes to the reference price and therefore customers gas costs, are expected in an upcoming QRAM application. The Board has therefore enhanced the QRAM process to provide early warning and communication when large variances are expected. Union recognized the need for enhanced communications and has accepted the Board changes as well as enhanced its own communications protocols related to this topic.

The Importance of Flexibility

Utilities need flexibility to effectively manage their operations by relying on the experience and expertise of their respective staff. Union as noted above, does use targets as part of its planning process, including storage space targets for ensuring safe and reliable service for sales service and bundled direct purchase customers. In the winter of

2013/2014, Union frequently monitored weather and demand trends and took proactive action.

Given the positive results Union has displayed over the most recent winters, there is no need to change the way that both upstream transportation and storage assets are planned for and managed. Also, given the enacted changes to communications protocols, no further enhancements to the QRAM process are required. There were suggestions during the Stakeholder Conference that a more mechanistic approach could be employed across each utility. This included the potential of using algorithms and modeling "what if" scenarios. Every utility has a different mix of storage and pipeline assets. Trying to employ a common formulaic algorithm or mechanistic approach is unreasonable and unnecessary. The current process and procedures have worked very well in both a very warm and a very cold winter. Utilities have experienced staff that are very familiar with the operations and characteristics of their available assets. Each utility can also be dramatically different as it relates to their service territory and their mix of assets available to serve. For example, Union uses a very different asset mix to serve Cornwall than Enbridge uses to serve Ottawa.

"What if" scenarios are already employed in that the utilities are constantly evaluating what options they have to manage changes that were unforeseen during the duration of the plan. The plan is a guideline and the utilities always have to manage the variances to the plan. In a colder than normal winter, Union will always buy more supply than was in the original plan to supplement the increased demand. The volume and timing will depend on the variance to the control points and the market operating conditions at the time. Trying to establish specific algorithms or "what if" scenarios would be very time consuming and be potentially limitless. At the Stakeholder Conference Mr. Quinn acknowledged the difficulty in creating algorithms:

"To your last point about creating an algorithm and generating decisions based upon that algorithm, a huge challenge and it would not -- in my experience, I would not think that that would be helpful to the utilities..."[1]

He also goes on to state that utilities need discretion to manage:

> *"But at the same time, I would want to have -- and I am speaking on behalf of my clients and the ratepayer as I see it -- the utility has some discretion. So they're intended to, let's say, bring in additional gas at Dawn. However, they may at that time learn that they could access that gas in a better way than they thought that they could. So they should have the freedom to adjust, and all they would need to do is document it for themselves. And to the extent they were asked a question by the Board at a subsequent time, You said you were going to do A, you did B, and they said, Well, yes, at A this was the cost. We did B, and this is the cost and these are the savings."*[2]

Mr. Leblanc from Enbridge states:

> *"First, I guess your idea of an algorithm or some sort of formula, I think that is a dangerous path to go down. I think I heard Dwayne agree that you can't anticipate all of the outcomes out there, and that it is important for utilities to be able to exercise the judgement and knowledge that they have in managing their portfolio."*[3]

Union could not agree more as the utilities primary function is to ensure the physical reliability of their systems. Any price or cost driven mechanistic triggers that could negatively impact physical capability would add risk and be unacceptable.

There are always options when it comes to managing variations and the applicability of each option would vary based on the utility. For example, Union used its discretion and purchased a portion of the volume it required this past winter from Empress on STFT rather than continue to rely on the overall decreasing storage balance at Dawn. This was a short term opportunity that required quick decision making and a quick response. Another good example was Union's decision to alter past practice and buy incremental volume based on expected or forecasted weather rather than waiting to rely strictly on

[1] Transcript, Volume 1, p. 106.
[2] Transcript, Volume 1, pp. 109-110.
[3] Transcript, Volume 1, p. 110

actual information. These are both examples of Union exercising management discretion based on its knowledge of the market conditions at the time and its expertise.

It was also suggested that keeping higher storage balances would be a possible alternative to manage colder than normal weather going forward. If Union were to set aside more storage assets, this would come at an added cost. Added storage assets would cost more and reduce any credits due to reduced optimization opportunities as the amount of excess space available to generate those credits would be reduced. These higher storage levels than what normal weather and demand would suggest, would negatively impact costs in years when the weather wasn't colder than normal. This would be due to the reduced load factors on upstream transportation capacity and the timing of when the gas was purchased. Union manages transportation costs by attempting to buy supply and flow upstream pipeline capacity as close to 100% load factor as possible. In those years in which weather was normal or warmer than normal, this would lead to higher unabsorbed demand charges ("UDC") and added costs on upstream pipelines than is currently the situation. It could also require the utilities to more frequently have to mitigate excess gas at the end of winter (because they entered the winter with more gas than is required for an average winter) by avoiding planned spring and summer purchases which traditionally are lower priced.

III/ KEY REQUIREMENTS FOR AN EFFECTIVE GAS MARKET IN ONTARIO

At the Stakeholder Conference Union provided its view of what is required to ensure support for continued strength of the natural gas market in Ontario. The key requirements for an effective gas market in Ontario are:

1. Maintain and grow Dawn as a liquid market hub;
2. Ensure appropriate infrastructure is in place, upstream and downstream of the Dawn Hub; and,

3. Continued regulatory support (both the federal and provincial level) with the current processes in place.

MAINTAIN AND GROW DAWN AS A LIQUID MARKET HUB

A market hub is a physical location that is supported by an extensive network of both storage and pipeline infrastructure where many natural gas buyers and sellers can easily transact. Market hubs are also characterized by a high level of competition that ensures price transparency, accurate market signals, diversity of supply options and reliable service. The Dawn Hub possesses these traits and is one of the best market hubs in North America.

Ten major pipelines have interconnections in the Dawn area providing a variety of supply options. This connectivity means that shippers can source natural gas from all major North American supply basins and transport gas downstream to markets in eastern Canada and the north eastern United States, or upstream, to markets in the mid-western United States. Several new paths to Dawn are planned and in development that would increase connectivity and supply from the Marcellus and Utica. The Dawn Hub also features more than 275 PJ of gas storage (including Union and Tecumseh) that is capable of providing services needed by the market including the flexibility to provide natural gas during unpredictable weather patterns and electricity consumption. It is the largest underground natural gas storage area in Canada. Having this much storage in one area provides options, allowing market participants to most effectively balance their energy needs.

Having both transmission and storage infrastructure extensively connected provides reliability and choice. It also provides a common point to transact natural gas with many buyers and sellers, which in turn provides price transparency through accurate market signals. Both the physical and financial activity at the Dawn Hub continues to grow.

Dawn remains the most liquid hub in Ontario and is among the most liquid points in North America. Dawn is the most physically traded hub in eastern North America. The liquidity at Dawn is a result of the combination of:

- Access to Underground Storage
- Interconnections with Upstream Pipelines
- Take Away Capacity to Growth Markets
- A Large Number of Buyers and Sellers of Natural Gas
- Price Transparency

The Board in its past Decisions has recognized the importance of Dawn:

> "*..it is in the public interest to maintain and enhance the depth and liquidity of the market at the Dawn Hub as a means of facilitating competition…*"[4]
>
> "*It is the Board's view that while uncertainties exist for all supply sources in terms of future cost and availability, it is widely acknowledged, including by the Board in prior decisions, that supply diversification enhances reliability and brings cost benefits through enhanced competition.*"[5]
>
> "*The storage facilities are an integral part of what is commonly referred to as the Dawn Hub, which is widely recognized as one of the more important market centres in North America for the trading, transfer and storage of natural gas. In its Natural Gas Forum Report the Board stated "The large amount of nearby storage, combined with the convergence of pipelines linking the U.S. and Ontario gas markets, have made Dawn the most liquid trading point in Ontario. The Federal Energy Regulatory Commission, in its assessment of energy markets in the United States in 2004, made similar comments about the significance of Dawn:*
>
> > *The Dawn Hub is an increasingly important link that integrates gas produced from multiple basins for delivery to customers in the Midwest and Northeast.*
> >
> > *…Dawn has many of the attributes that customers seek as they structure gas transactions at the Chicago Hub: access to diverse sources of gas production; interconnection to multiple pipelines; proximity to market area storage; choice of seasonal and daily park and loan services; liquid*

[4] EB-2005-0551, Decision November 7, 2006, p. 45.
[5] EB-2012-0451/EB-2012-0433/EB-2013-0074, Decision January 30, 2014, pp. 23-24.

trade markets; and opportunities to reduce long haul pipeline capacity ownership by purchasing gas at downstream liquid hubs."[6]

Benefits of Dawn as a Liquid Hub

Overall, a robust and liquid Dawn Hub provides several important benefits which are essential to providing cost effective gas supply to Ontario. It allows access to a cost effective, stable and competitively priced gas commodity. A liquid hub also attracts the participation of many parties which encourages competition and choice. Ontario also benefits from increased security of supply through access to multiple supply sources and immediate access to storage. These benefits are reflected in Ontario's natural gas bills.

Preservation of a Liquid Market Hub

An effective gas market in Ontario can only be maintained as long as a liquid market hub is supported and encouraged by Ontario and the Board. As the WCSB declines, new sources of supply will have to be accessed to maintain and grow liquidity at Dawn. The market must be free to access those new supply basins. Infrastructure will have to be in place to allow effective movement of gas to and from the market hub, and the regulatory environment will have to be supportive of market developments.

The Impacts of a Dawn Based Reference Price

As Union and others continue to respond to changing North American natural gas market dynamics the source of the majority of gas supply serving Ontario is changing. As recent as 1999, Union was sourcing over 80% of its gas supply from the WCSB. By 2018 this number is expected to be below 20%. In its place, new supplies purchased at Dawn or upstream of Dawn will find their way to customers, providing benefits to all of Ontario. Union is currently evaluating the possibility of evolving the Quarterly Rate Adjustment Mechanism ("QRAM") reference price from Western Canada to Dawn.

Sales service customers pay a price for gas set by the Board through the QRAM process. Each gas distributor applies for a QRAM adjustment quarterly, and the proposed gas

[6] EB-2005-0551, Decision November 7, 2006, pp. 7-8.

supply price is based on the market price for that natural gas. The existing QRAM process was established in the Board's proceeding on Methodologies for Commodity Pricing, Load Balancing and Cost Allocation for Natural Gas Distributors (EB-2008-0106).

As noted in the Board's Decision on the QRAM Review in EB-2014-0199, the QRAM strikes a balance between ensuring that consumers are receiving appropriate price signals which reflect the actual natural gas market price and protecting the interests of sales service customers by reducing, to some extent, volatility in the price of natural gas.

As Union's portfolio changes and more gas is sourced from Dawn rather than Alberta, the currently used Alberta Border Reference Price for Union North commodity may no longer be an appropriate market price indicator for customers in Union North delivery areas. The Alberta border reference price may still be an appropriate market price indicator for customers in some delivery areas where gas is still expected to be sourced entirely from Empress over the near future.

For Union South customers, the Ontario Landed Reference Price is also essentially based on Empress supply and TransCanada tolls to the Union CDA for Union South commodity and transport rates. The Ontario Landed Reference Price is then adjusted to reflect the projected cost of Union's South portfolio, relative to the cost of Union's South portfolio at the Ontario Landed Reference Price. This credit results in a South Portfolio Cost Differential ("SPCD") credit that reduces the transportation rate that would otherwise be charged to Union South customers. This method ensures that Union South customers only pay for the cost of getting gas supply to Union South. With less gas being sourced from Alberta for Union South in the future, the Dawn reference price will also be a more appropriate market price indicator for Union South customers.

In response to the Board's request for comments in EB-2014-0199, several intervenors, including IGUA, Energy Probe, City of Kitchener, and FRPO, also suggested that

reviewing the implications of adopting a Dawn reference price for QRAM purposes, would be timely. As well during the Stakeholder Conference, Mr. Mondrow also asked:

> *"... whether there's any wisdom or utility in exploring the reference price for QRAM purposes, given that we're sourcing so much more gas now from Dawn."*[7]

Union is evaluating a change to the reference price to be Dawn-based for those customers where it is most appropriate and Empress based for the remaining customers.

ENSURE APPROPRIATE INFRASTRUCTURE IS IN PLACE

Dawn is an integral part of the natural gas delivery system for Ontario, Québec and U.S. Northeast residents, business and industry. The depth and liquidity of the market at Dawn provides value to all Ontario customers by way of competitive natural gas commodity prices, attracting natural gas supply to Ontario. In fact, Ontario's natural gas-fired generation market relies on a healthy, liquid Dawn Hub as power generation contracts are commercially structured based on the price of natural gas at Dawn for approximately 1/7th of Ontario's total electricity production capacity.

Union's Dawn-Parkway System is also an integral part of the natural gas delivery system for Ontario, Québec and U.S. Northeast residents, business and industry, connecting consuming markets to most of North America's major supply basins, to the largest region of underground natural gas storage in North America and to the liquid Dawn Hub.

Changing North American Supply and Transportation Dynamics

North American natural gas markets have and are experiencing dramatic change. Production from mature North American natural gas basins is in decline while new production from shale gas formations continues to exceed expectations. The economics of natural gas production favour shale gas and tight gas formations. These changing fundamentals were discussed in detail by Union in EB-2012-0433, EB-2013-0074 and

[7] Transcript, Volume 2, p. 139.

EB-2014-0261 and were supported by third party reports from ICF International ("ICF") and Navigant.

The shift in terms of where natural gas is produced in North America is also impacting the flow of natural gas on the Canadian and U.S. pipeline grid. Eastern shippers are adjusting their natural gas supply portfolios and transporting supply purchased closer to the market using short haul contracts. As a result, long haul pipelines are experiencing lower utilization rates along the long haul paths even though short haul paths on these long haul pipelines may be fully utilized and, in many cases in eastern North America, including the Eastern Ontario Triangle portion of the TransCanada Mainline, are expanding.

Accessing this new supply will be essential to providing diversity of supply and affordable energy prices to fuel Ontario's economic competitiveness. New infrastructure is required to and within Ontario to access the new supply sources through incremental short haul transportation services.

Take Away Capacity to Growth Markets

Union has seen a significant increase in demand for Dawn to Parkway transportation capacity as a result of eastern markets shifting from long haul-based supply to short haul-based supply. This has resulted in the approved addition of Dawn-Parkway System capacity of 433 TJ/d commencing 2015 and an additional 443 TJ/d proposed commencing 2016. In addition, the approved Enbridge GTA Project will provide 1.2 PJ/d of transmission capacity directly connected to Parkway in 2015. TransCanada has expanded the Parkway to Maple section of its Mainline in 2012 and 2013 and plans further expansions in the Parkway to Maple corridor in 2015 and 2016. An expansion of the Dawn-Parkway System is also expected in 2017 as well; the open season is currently underway. The majority of the new capacity has been contracted by the Eastern LDCs (Union, Enbridge and Gaz Métro), providing an opportunity to attract new natural gas supply to the Dawn Hub.

Interconnections with Upstream Pipelines

The Appalachian Basin (Marcellus and Utica supplies) has experienced the most prolific natural gas production growth in North America. This abundant supply is located within the Great Lakes region in close proximity to Ontario and other eastern North American consuming markets. The U.S. Energy Information Administration in its 2014 Annual Energy Outlook forecasted that shale gas production will represent 50% of total U.S. natural gas production by 2035.[8]

Based on the current ICF forecast, Marcellus and Utica natural gas production will exceed demand projected for the New England and Mid-Atlantic markets as early as 2016.[9] This is the primary driver for Marcellus and Utica natural gas producers continuing to aggressively seek access to other North American markets, including Dawn. With competition for Marcellus and Utica supply from the U.S. Northeast, Gulf Coast, the U.S. Midwest and the U.S. Southeast, timing will be critical for the Dawn Hub and Ontario consuming markets to access the prolific Appalachian shale plays. The opportunity to achieve this connectivity is presenting itself now as Marcellus and Utica producers are actively looking for new long term markets in which to sell their production.

A number of projects have been proposed to bring Marcellus and Utica natural gas to Dawn through Michigan, including NEXUS, ETP Rover and ANR East, and through New York, including expansion of the Tennessee Gas Pipeline system in upstate New York. Connecting new supply to Dawn of the magnitude required to support major Greenfield pipeline projects, such as NEXUS and ETP Rover, will require eastern LDCs to contract for capacity as an anchor shipper. Union has committed to 158 TJ/d of transportation capacity on NEXUS as an anchor shipper to Dawn. Without the commitment of eastern LDCs, projects of this magnitude would have to rely heavily on producers to contract for long term capacity or, in some cases, they may not get built. In

[8] U.S. Energy Information Administration, 2014 Annual Energy Outlook, p. MT-23.
[9] EB-2014-0261, Pre-Filed Evidence, Exhibit A, Tab 5, p.9.

the case of NEXUS, eastern LDC commitment provides some balance between market pull and supply push drivers, providing a greater chance of subscribing the necessary capacity to support the project and bring benefits to the market at Dawn.

Ultimately, the combination of new take away capacity and new pipeline connectivity to Dawn will increase the depth and liquidity of the Dawn Hub, benefiting all Ontario natural gas consumers through diversity of supply, increased security of supply and access to more cost competitive supply.

In its report entitled "Impact of Changing North American Supply and Demand on Union Gas Pipeline Facilities", ICF concluded:

> "*The changes in natural gas markets are shifting the economics of natural gas supply for Ontario consumers, and for consumers that rely on Ontario pipeline capacity. Natural gas prices at Marcellus and Utica supply centers are expected to continue to decline relative to natural gas prices in the WCSB, the U.S Gulf Coast and other North American supply centers, creating significant economic incentives to develop infrastructure needed to access this source of supply. The infrastructure will be required at various locations between production zones, liquid hubs and the consuming markets which for Ontario consumers means infrastructure upstream and downstream of Dawn and Niagara.*"[10]

The Board acknowledged the importance of diversity of supply and access to emerging supply basins and stated within its Decision from the Parkway Projects application:

> *"Furthermore, Ontario gas consumers will obtain additional certainty through this project concerning their access to alternative supply sources. The project will provide access to more supply and to more sources of supply while retaining market access to existing WCSB supplies. That is a clear benefit to Ontario consumers, and is a positive element in relation to the economic viability of the project. Supply diversity enhances security and has the tendency to lower gas prices from what they would otherwise be if the market continued to rely on fewer sources of supply."*[11]

[10] EB-2014-0261, Pre-Filed Evidence, Exhibit A, Tab 5, Attachment 1, p.35.
[11] EB-2012-0433/EB-2013-0074/EB-2012-0451 Decision and Order, p. 29.

Long Term Expectations for the Dawn-Parkway System

Union has various means available to ensure a rational and planned expansion of the Dawn-Parkway System, recognizing that the possibility of turnback of capacity from current customers exists, including reverse open seasons, future market growth, third party consultant forecasts and the ability to offer further Parkway Delivery Obligation shift to Dawn. Each time that Union proposes an infrastructure addition on the Dawn-Parkway System, a reverse open season is required to be conducted in accordance with the Storage and Transportation Access Rule ("STAR").

Union expects further growth opportunities on the Dawn-Parkway System beyond the contracted transportation capacity commencing in 2015 and 2016. Union issued an open season in December 2014 for transportation capacity commencing in 2017 and 2018. Bids from the market are due January 30, 2015. While future demand is difficult to predict, opportunities for new transportation capacity requests include:

- New Ontario gas-fired power generation
- Residential, commercial and industrial demand growth in Ontario and Québec
- Continued conversion of long haul transportation to short haul transportation
- Additional requests from existing industrial and power customers in northern and eastern Ontario for the new North T-Service Transportation from Dawn transportation service
- Demand driven by compressed natural gas and liquefied natural gas development in Ontario
- Increased demand in the U.S. Northeast
- Residential, commercial and industrial demand growth in the Maritimes

Union is able to identify potential demand growth and to understand turnback potential through its general market knowledge, extensive contact with existing shippers, involvement in both federal and provincial regulatory forums and reverse open seasons (where shippers can turn back Dawn-Parkway System capacity before the end of their

current term to reduce an infrastructure build). In addition, Union contracts with third party consultants with natural gas market expertise to understand broader market and Great Lakes region natural gas market dynamics and to provide expert opinion on future utilization risks for the Dawn-Parkway System.

In EB-2014-0261, ICF provided an evaluation of future utilization and contracting of the Dawn-Parkway System. ICF concluded that demand for pipeline flows on the Union Dawn-Parkway System during peak winter periods is likely to continue to increase from today's levels.[12] Further, ICF concluded that "new facilities proposed by Union respond to market needs, should be expected to be heavily utilized and should be expected to become more valuable over time with very limited de-contracting risk."[13]

In addition, as part of the Settlement Agreement between TransCanada and the Eastern LDCs and as approved by the NEB in RH-001-2014, TransCanada will require shippers holding transportation capacity on a path where expansion infrastructure is proposed to be built to extend their current term for five years from the in-service date of the expansion facilities. This will include shippers on the Dawn-Parkway System serving markets beyond Parkway that are connected to the TransCanada Mainline, such as Ontario, Québec and U.S. Northeast customers. Based on expected contracting profiles on the Dawn-Parkway System and TransCanada Mainline, it is likely that TransCanada will require expansion facilities (as is the case with the King's North and Vaughan Loop Projects) at the same time that Union requires expansion facilities and therefore it is likely that some Union shippers from Dawn to points beyond Parkway will need to commit to term extensions under the TransCanada term up provision process. Union is also currently evaluating the application of a similar term up provision with respect to the Dawn-Parkway System which would align shipper obligations between Dawn and the market areas.

[12] EB-2014-0261, Pre-Field Evidence, Exhibit A, Tab 5, Attachment 1, p. 35.
[13] Ibid, p. 36.

Based on reasonably foreseeable market conditions, Union considers the risk of unused Dawn-Parkway System capacity in the future to be low and has tools available to help manage turnback risk.

CONTINUED REGULATORY SUPPORT WITH THE CURRENT PROCESSES IN PLACE

TransCanada Expansion and Coordination

With the shift in eastern markets from WCSB-based supply and long haul transportation to Dawn-based supply and short haul transportation, Union, Enbridge and TransCanada have the opportunity to build new infrastructure to meet market needs. The Settlement Agreement provides the framework to allow this to happen. New pipeline infrastructure in Ontario will be constructed by multiple parties and under the jurisdiction of federal and provincial regulators (Enbridge GTA Project; Union's Brantford-Kirkwall/ Parkway D Project and Lobo C/Hamilton to Milton Pipeline Projects; and TransCanada's King's North and Vaughan Loop Projects). These projects are developed under unique schedules that are the product of, *inter alia*, the scope of work and regulatory approval process but culminate in a common in-service date. Coordination between federal and provincial projects should not include approvals conditioned upon the Decisions of other regulators.

In 2015, Union and Enbridge received approval from the Board for approval of the Brantford-Kirkwall /Parkway D Project and GTA Project, respectively, which will transport natural gas from Dawn to markets in the GTA and further downstream. TransCanada also requires construction of its King's North Project to expand Mainline capacity downstream of Parkway which is under the jurisdiction of the NEB. The Union and Enbridge projects were brought forward to the Board before tolls and tariff changes proposed in the Settlement Agreement were approved by the NEB (in fact, the Union and Enbridge projects were brought to the Board before an executed Settlement Term Sheet existed). During this period of uncertainty, and particularly given that the proposal of the Settlement Agreement would result in some fundamental changes to the TransCanada Mainline regulatory framework, the Board conditioned its approval of the Brantford-

Kirkwall Pipeline upon NEB approval of TransCanada's King's North Project and written confirmation that TransCanada intends to build these facilities.

In 2016, Union and TransCanada are again proposing to build new pipeline infrastructure in Ontario to serve Ontario and Québec customers from Dawn. Union is proposing the Lobo C Compressor and the Hamilton to Milton Pipeline Loop while TransCanada is proposing the federally regulated Vaughan Loop Project (between the terminus of the King's North Project and Maple).

There is no need to condition approval of provincially regulated facilities on federal approval of new TransCanada facilities. Expansion has occurred within Ontario in the past without the need for approvals that were conditioned on the Decisions of other natural gas regulators. To add conditioned approvals would also add cost uncertainty and very likely, in-service delays. Union expressed its concerns in more detail in EB-2014-0261.[14]

A need for efficiency and a new approach was recognized by Dr. Rahbar, President of the Industrial Gas Users Association, in her remarks at the Stakeholder Conference.

> *"So we know the infrastructure must adjust. Timing is important, and managing the transition right is very, very important. Of course we need to consider things as we go forward, but we also need to be expeditious."*[15]

and

> *"So the process in this rapid transition phase, I think requires tools that our regulators recognize are not the same tools they use in the times of constant, stable markets with marginal change at the end. Again, agreeing with everybody who had said we need to get supply to Dawn, we need to make sure Dawn is liquid and we need to remove the bottlenecks so we can get access."*[16]

[14] EB-2014-0261, Exhibit B.APPrO.1.
[15] EB-2014-0289, Natural Gas Market Review – Stakeholder Conference, Transcripts, December 4, 2014, p. 77.
[16] Ibid.

Union believes that the Board should ensure that its review and approval process is efficient, including incentive for negotiated settlement of issues to reduce hearing time. Union also believes that the Board should publically support an accelerated federal regulatory process, specifically accelerated decisions (60 day maximum) from the NEB regarding projects for new facilities such as TransCanada's King's North Project and the Vaughan Loop Project that align with other needed Ontario natural gas infrastructure.

Annual Natural Gas Market Review Stakeholder Meetings

At the Stakeholder Conference, Ms. Leclair recommended stakeholders engaging more frequently so that the Board can stay ahead of natural gas issues. Union supports meeting annually to engage with the Board and discuss changes that are happening in the natural gas market and how all those changes should be reflected in regulatory priorities going forward.

Union supports meeting annually with stakeholders to discuss key factors affecting North American and Ontario natural gas markets, changes in key factors since the previous NGMR, forecast natural gas demand, supply and prices and any regulatory implications arising from the NGMR. Union does caution reopening fundamental questions on large infrastructure projects – to do so adds risk and potential for delay.

IV/ UNION'S RESPONSE TO THE SUBMISSIONS BY OTHERS

Union will respond to the following issues that were raised by other parties during their presentations:

1. TransCanada's Energy East Project;
2. Proposal that all dispatchable generators be eligible for unobligated Daily Contract Quantity ("DCQ"); and,
3. Proposal for North Services.

UNION'S VIEW ON TRANSCANADA'S ENERGY EAST PROJECT

Union, along with the other Eastern LDCs, have evaluated the Energy East and Eastern Mainline Project proposals of TransCanada to ensure that the interests of the natural gas consumers and market, including Ontario and Québec residential, commercial, industrial and power generation customers, are protected. Union and the other Eastern LDCs remain concerned with the negative impacts that the Energy East and Eastern Mainline Projects, as proposed by TransCanada, will have on natural gas consumers and markets.

Union supports the majority of the Energy East Project and, done right, Energy East could be a project that benefits all of Canada. Union supports the redeployment of underutilized Mainline natural gas assets in the Prairies and on the Northern Ontario Line (between Empress, Alberta and North Bay, Ontario) which will benefit both natural gas and oil shippers.

However, Union does not support the proposed redeployment of the TransCanada natural gas pipeline situated between North Bay and Ottawa in the Eastern Ontario Triangle. Under TransCanada's proposal, natural gas markets and consumers east and south of North Bay are being asked to accept less capacity at a significantly higher cost than is available today. Union and the other Eastern LDCs are concerned with insufficient capacity for all markets using the Eastern Ontario Triangle and the cost risks resulting from TransCanada's proposal.

i) Capacity Issues

The section of pipeline being removed from natural gas service in the Eastern Ontario Triangle and being converted to oil service is fully utilized during the winter. Ontario and Québec residents, businesses and industries rely on that capacity being available to meet their energy needs, including both firm capacity and capacity purchased through the secondary market or through TransCanada's discretionary services. U.S. Northeast utilities and customers also rely on capacity in the Eastern Ontario Triangle during the

winter. The existing pipeline infrastructure meets the needs of the Ontario, Québec and U.S. Northeast markets – the natural gas market does not need new pipeline capacity.

TransCanada proposes to remove natural gas pipeline capacity but has failed to complete a proper market assessment that would assess the needs of domestic and export markets. Instead TransCanada relies solely on an open season for 2016 capacity that was conducted without full transparency and without sufficient consultation with natural gas shippers. TransCanada conducted its 2016 open season assuming that 1.2 PJ/d of capacity in the Eastern Ontario Triangle (North Bay to Ottawa pipeline) would be removed from natural gas service and transferred to the oil shippers and the Energy East Project. TransCanada did not have NEB approval to do so. Union notes that the open season for oil transportation capacity on the Energy East Project was not released until after TransCanada's 2016 open season for natural gas service was issued.

For an industrial customer that currently relies on the secondary market or discretionary services to source energy supply, there was insufficient information from TransCanada associated with its 2016 open season that would allow an informed decision to be made. Industrial customers were faced with the choice of contracting for 15 years with TransCanada for firm services (in the event that an industrial customer can even take on that risk), contracting for service with an LDC, or continuing to contract in the secondary market and/or through discretionary services. The market wasn't given ample opportunity to properly understand the impact of TransCanada's Energy East proposal with respect to cost and capacity availability, including any impact the proposed Energy East Project would have on cost and the availability of capacity in the secondary market and through TransCanada's discretionary services.

As a result, TransCanada significantly understates capacity requirements in the Eastern Ontario Triangle in its Energy East and Eastern Mainline Projects applications. TransCanada's proposal will reduce pipeline capacity in the Eastern Ontario Triangle by approximately 600,000 GJ/d or 20% of the total current capacity. For such a fundamental

change in Ontario's natural gas market, TransCanada provided neither sufficient information nor adequate time for the market to understand the impacts. In fact, since the 2016 open season was conducted, the Eastern LDCs have spent considerable effort communicating and educating the market.

In November 2014, Union and the other Eastern LDCs expressed their concern to the NEB through two letters highlighting that the TransCanada Energy East application was deficient without a proper assessment of the natural gas market needs in the Eastern Ontario Triangle and that the NEB address this issue in the review of the completeness of the applications to ensure efficient regulatory process.

Proper assessment of the natural gas market needs is critical in determining whether the natural gas assets in the Eastern Ontario Triangle should be transferred to the oil business and, if so, determining the appropriate amount of replacement capacity to be completed under the Eastern Mainline Project. Municipal stakeholders and industrial customers have supported the Eastern LDCs through letters requesting that TransCanada complete a further open season for 2017 transportation service under fair terms and conditions. This would provide additional indication of natural gas market needs for capacity on the Eastern Ontario Triangle.

Although TransCanada has initiated a 2017 open season, TransCanada is clear in its position that this capacity is not considered part of the Energy East Project. As a result, natural gas shippers will be required to pay the cost of new facilities, even though that capacity already exists today.

Union disagrees with TransCanada's position. It is Union's view that any replacement capacity that is built must be sufficient to meet existing market needs plus capacity to serve 2016 and 2017 open season results, plus enough capacity to meet a reasonable amount of market growth. The Energy East applications must be amended to include the

results of the 2017 open season along with any other study, consultation or open season necessary to properly assess the capacity needed to serve the natural gas market.

ii) Cost Recovery Issues

TransCanada's proposal is structured to provide natural gas shippers short term toll benefits prior to 2020 however a significant cost impact will occur beyond 2020. TransCanada expresses these short-term benefits through a Net Present Value calculated to 2030, not based on the economic life of the assets. As currently structured, the Energy East Project will increase costs to Ontario and Québec natural gas consumers over the long term and unnecessarily put cost risk on natural gas shippers. As recognized by the Régie de l'énergie in their R-3900-2014 report issued December 18, 2014, "The gas segment of the project introduces costs and risks that natural gas shippers currently do not have to bear."

Under the Settlement Agreement, the Eastern LDCs have agreed to the recovery of TransCanada's costs based on the $400 million Net Book Value for the assets that TransCanada is removing from natural gas service and converting to oil service within the Eastern Ontario Triangle (North Bay to Ottawa). The tolling methodology outlined in the Settlement Agreement was subsequently approved by the NEB (RH-001-2014) and includes cost recovery for these Eastern Ontario Triangle assets. The Eastern LDCs commitment to cover TransCanada's costs in the Eastern Ontario Triangle has reduced TransCanada's risk of cost recovery.

Replacement facilities proposed through the Eastern Mainline Project, which at only half of the capacity of the transferred pipeline assets will cost $1.5 billion according to TransCanada, significantly increasing rate base in the Eastern Ontario Triangle. Union suspects that costs of the Eastern Mainline Project could be much higher by the time construction has been completed. Under TransCanada's proposal, natural gas shippers on the Eastern Ontario Triangle are at risk for two significant costs to replace capacity that is fully utilized today: i) the cost of new pipeline facilities to meet the needs of the Ontario,

Québec and U.S. Northeast markets (even though they are being met today); and ii) for all construction cost overruns associated with new natural gas capacity constructed.

iii) Commodity Cost Impacts

Union also has significant concerns with respect to the impact that capacity restrictions under TransCanada's proposal will have on commodity costs in the Eastern Ontario Triangle and Québec. Union does not agree with TransCanada's assertions that the U.S. Northeast utilities will abandon the path between Dawn and their markets, which includes utilization of the Eastern Ontario Triangle to transport natural gas east of Parkway. Sourcing natural gas at Dawn provides U.S. Northeast utilities diversity of supply and transportation path and provides access to storage and balancing services (at Dawn and upstream in Michigan) which is critical for any utility serving seasonal demands.

As provided in its presentation prepared for the NGMR, ICF forecasts that U.S. Northeast customers will continue to seek peak supply from Canada through Waddington into the Iroquois Gas Transmission system. Under TransCanada's proposal, the decrease in pipeline capacity in the Eastern Ontario Triangle will create increased competition for available capacity during peak periods, driving commodity costs in eastern Ontario and Québec towards New England prices. Increased commodity costs put upward economic pressure on Ontario's businesses and industry that purchase energy supply in the Eastern Ontario Triangle through the secondary market or through TransCanada's discretionary services.

iv) Unfair for Ontario

Replacing Eastern Ontario Triangle pipeline capacity that exists today and that is paid for by Mainline shippers, with 20% less capacity at an increased rate base of at least $1 billion is not a fair deal for Ontario natural gas markets and consumers. Energy costs are critical to the competitiveness and economic growth of Ontario and Québec. Union and the other Eastern LDCs would not oppose TransCanada's Energy East proposal if it benefited natural gas customers and markets. That is why Union and the other Eastern

LDCs felt it necessary to publically respond to TransCanada's proposal with respect to Energy East. Evaluation of TransCanada's Energy East proposal and communicating the impacts to the natural gas market in no way is a disservice to Ontario natural gas consumers. It is critical that Ontario residents, business owners and industry understand the facts and the potential impacts that TransCanada's proposal could have on the Ontario and Québec economies.

Natural gas consumers in eastern Canada should not pay more (no negative cost exposure) and should not have to accept a lack of pipeline capacity (no negative capacity exposure) as a result of TransCanada's Energy East Project. Union and the other Eastern LDCs believe the solution is simple. TransCanada should leave the natural gas assets in the Eastern Ontario Triangle alone and construct a new oil pipeline from North Bay, not Ottawa, to eastern Canada. TransCanada is burdening natural gas shippers to make the Energy East Project economic. Oil shippers are receiving the benefits and should therefore pay the costs.

Union looks forward to participating in the Board's Energy East consultative at the end of January and plans to actively participate in the NEB proceedings related to Energy East and the Eastern Mainline Project.

PROPOSAL THAT ALL DISPATCHABLE GENERATORS BE ELIGIBLE FOR UNOBLIGATED DCQ

At the Stakeholder Conference, APPrO presented that they would prefer an unobligated DCQ. In addition to Union's account managers having various individual customer discussions, a customer focus group was initiated in September 2014 to discuss the unobligated DCQ issue.

The customer focus group consists of five T2 customers who either expressed interest in such a service offering or that Union invited to participate. The group is intended to represent a cross section of Union's customers of this size including customers who have a process load, manufacturing load and natural gas generators. Union and customers in

the focus group have gained a common understanding of customer needs and concerns. The group is working towards developing an outline of a service design for discussion purposes by March 2015. Feedback from the focus group to date has been positive. As Mr. Butters stated at the Stakeholder Conference:

> *"We're actually in the process of working with Union Gas on this right now. Union has a stakeholder initiative. I think we have seen good progress here. I think we will -- hopefully we can get to a place where we can see that take place. But we do work closely with the utilities to make sure that we've got the right services."*[17]

The focus group is making progress and customer engagement in the process is positive. Union expects to have a service proposal to present to a broader customer group by Q3, 2015.

PROPOSAL FOR NORTH SERVICES

As APPrO mentioned at the Stakeholder Conference, Union has been in discussions with individual Union North power generation customers (all T-Service customers) as well as APPrO and OPA on the topic of natural gas services meeting the changing needs of Union North gas-fired power generators. Union has formed a working group to address the changing natural gas needs for this group of power customers and/or their representatives. The initial working group meeting with all invitees is scheduled for late January 2015.

North T-Service Customers – Service Offerings Underway

i) Transportation – In 2013 Union initiated customer consultations on a new firm transportation service design between Dawn and Union North delivery areas for firm T-Service customers in the EDA, NDA, and NCDA delivery areas. The first tranche of the service has a proposed start date of November 1, 2016. Union will transport nominated quantities on behalf of the Union North T-Service customers from Dawn to their plant location. Based on customer feedback, the service design was adjusted to meet the needs of Union and its customers. Subsequently, Union received sufficient customer interest in

[17] Transcript, Volume 1, pp. 138-139.

this service to allow Union to enter the TransCanada and Union 2016 open seasons for a total of 29,115 GJ/d. Currently, Union is soliciting additional interest for this same service in order to take capacity in the TransCanada and Union 2017 open seasons to provide service starting on November 1, 2017. Union is preparing evidence for approval of the rate and a proposed deferral account needed to implement the service.

ii) Storage - Union initiated a roll-out of a cost-based storage service design for all Union North T-Service customers in December 2014 and is currently requesting expressions of interest from customers by the end of February 2015. This service offers cost-based storage and is anticipated to be available April 1, 2016. Storage space allocations are reflective of the storage allocation methods established in Union South. As part of the service, Union North T-Service customers are required to demonstrate they possess firm transportation capacity between Dawn and their delivery area to qualify for this cost based service. Union will consider level of customer interest and comments on service design prior to applying to the Board for rate approval. If sufficient interest exists, Union will file for approval at the same time it files for approval of the transportation service.

These two services for Union North T-Service customers will provide these customers access to Dawn; access that is either limited or does not exist today. Dawn storage provides service flexibility and efficiency that would otherwise not be available to Union North customers.