

EB-2015-0120

Ontario Energy Board

Union Gas Limited

Application for leave to construct three natural gas pipelines to serve a mine site and the City of Greater Sudbury.

ENERGY PROBE RESEARCH FOUNDATION

FINAL SUBMISSIONS

June 22, 2015

Union Gas Limited

Application for leave to construct three natural gas pipelines to serve a mine site and the City of Greater Sudbury.

Union Gas Limited (Union) seeks Board approval under section 90 of the Ontario Energy Board Act, 1998, to construct three separate natural gas pipelines and ancillary facilities in the City of Greater Sudbury as follows:

- 2.3 km of NPS 6 natural gas pipeline (FNX Victoria Mine)
- 1.55 km of NPS 12 natural gas pipeline
- 2 km of NPS 10 natural gas pipeline

Union indicates the construction of the proposed pipelines are needed to serve the new FNX Victoria Mine site; to meet the growing demands for natural gas in the City of Greater Sudbury and to ensure the continued reliable, safe delivery of natural gas.

Union is required to expand the natural gas distribution system in accordance with EBO 188 Report on Natural Gas System Expansion which establishes the criteria required for expansion of natural gas distribution system and required economics of those expansion projects. Union submits the proposed facilities are economically feasible and in the public interest.¹

Project Cost

The total cost of the proposed facilities is estimated at \$10.825 million which includes pipeline capital costs of \$10,201,000 and station capital costs of \$624,000. The costs of the proposed facilities will be included in rates in Union's 2019 rebasing application.

\$6.592 million is attributed to the FNX Victoria Mine. Union evaluated a number of alternatives (NPS 4, 6 and 8) to appropriately size and cost the service required to connect the mine resulting in a proposal for 2300 metres of NPS 6 pipeline. Energy Probe is satisfied that Union undertook an appropriate review of alternative pipe sizes in order to size the project.

The capital contribution from FNX is \$4,717,000 for a net investment of \$1,875,000 by Union.²

¹ EB-2015-0120 Application, Project Summary, Page 1 Paragraph 41

² EB-2015-0120 Application, Project Summary, Page 9 Paragraph 37

The remaining \$4.233 million is attributed to system reinforcement and general service growth in the City of Greater Sudbury and it is managed within the rolling portfolio.

Union is aware of other potential industrial projects that could lead to further expansion of the Sudbury system but until progression of these projects reaches a commitment level (i.e. an in-service date, peak hourly gas demand, delivery pressure requirements) no future growth from industrial customers has been included in this filing.³

Economic Analysis

The economic analysis⁴ for the FNX Victoria Mine consistent with the Board's recommendations in E.B.O. 188 shows the proposed facilities have a Net Present Value (NPV) of zero and a Profitability Index (PI) of 1.0.

The PI of Union's new business investment portfolio and Union's rolling portfolio including the FNX Victoria mine, system reinforcement and general distribution growth is estimated to be 1.20 and 1.41, respectively.⁵

Given the PIs are in accordance with the EBO 188 Report on Natural Gas System Expansion, Energy Probe takes no issue with Union's economic analysis for the proposed projects.

Project Need/Status

FNX Victoria Mine site

Union is in the process of negotiating a Distribution Contract with FNX Victoria Mine for the proposed facilities and a letter of support has been provided by FNX Victoria Mine.⁶ The letter of support dated March 2, 2015 indicates FNX Mining Company Inc. (FNX), is proceeding with its Victoria Advanced Exploration Project located 40 km West of Sudbury, ON. The project is moving towards a fully operating 3500 tonnes per day mine and a significant amount of natural gas is required for mine air heating, general site heating and temporary power generation.

³ Board Staff IR#2

⁴ Schedule 6 – DCF for FNX Victoria Mine; Schedule 7 – DCF Assumptions

⁵ EB-2015-0120 Application, Project Summary, Page 9 Paragraph 40

⁶ EB-2015-0120 Application, Project Summary, Page 1 Paragraph 2

FNX's negotiations with Union Gas are for a supply contract (with options for a 10 year term) as the minimum life of the mine is forecast to be at least 15 years. The letter reflects the intent to have a contract signed no later than May 2015 in order to meet the present construction schedule demands.⁷ In response to interrogatories Union updated the timeline and now anticipates a signed contract by June 15, 2015. The Victoria Mine pipeline requires an in-service date of September 2015 to meet plant requirements for winter 2015/16. Union plans to construct the proposed facilities during the summer of 2015 to allow for favourable weather conditions.

Energy Probe asks that Union provide in its reply submissions the status of the negotiations and signed contract with FNX.

Energy Probe shares Board Staff's concern that there is no evidence on the record that the contract has been executed and that FNX is contractually committed to its required share of the capital costs, which at \$4.717 million is a relatively large capital contribution. Energy Probe agrees that the Board needs to be assured that the FNX funding will materialize.⁸

Energy Probe supports Board Staff's submission that until such evidence is provided, the OEB should withhold its final approval.

Growing Demands for Natural Gas

Union's evidence is that it has experienced growth in residential, commercial and industrial segments on the Sudbury system and that over the past 10 years the average growth has been a 1.3% attachment rate. Union provided growth patterns from 2004 to 2013.⁹ To provide capacity for future growth and to meet the needs of Union's current industrial customers Union proposes 1550 metres of NPS 12 (Frood to LaSalle Roads to extend the looping of the Sudbury lateral system) and 2000 metres of NPS 10 natural gas pipeline (Azilda TBS toward the Azilda take off to loop the existing undersized NPS 6 pipeline). A review of natural gas consumption of the Industrial Customers on the Sudbury system identified a system shortfall on a peak day indicating the system is operating below the minimum design specification and in need of reinforcement.

⁷ Schedule 2 – Letter of Support

⁸ Board Staff Submission June 19, 2015, Page 4

⁹ EB-2015-0120 Application, Project Summary, Page 3 Paragraph 13

The in-service date for the proposed facilities is December 2015.

Taking into consideration project need and project economics, Energy Probe takes no issue with Union's proposal to construct these project facilities, subject to the comments below.

Environmental Protection Plan (EPP)

Union prepared an EPP for the entire project dated March 2015. Union concludes that there will be no significant environmental impacts associated with the construction of the proposed facilities given Union's standard construction procedures and mitigation measures recommended in the Environmental Report (ER) prepared by Azimuth Environmental.¹⁰

Union provided a copy of the EPP to the Ontario Pipeline Coordinating Committee (OPCC) on March 11, 2015 and copies were also sent to local municipalities, the Conservation Sudbury, First Nations and Metis and other interested parties as requested. In its interrogatory responses Union provided a summary of comments and responses to concerns raised from agencies and interested parties.¹¹

Energy Probe asks that Union provide in its reply submission the status of any outstanding concerns raised by agencies and interested parties.

Consultations

Union states that it has met with or spoken with all directly affected landowners along the proposed facilities route and indicates the only directly affected landowner impacted by the construction of the project is Vale Canada Limited. Vale Canada Limited has not identified any concerns.

All other pipelines will be constructed within the road allowance in the City of Greater Sudbury under Union's franchise agreement. Union notified First Nations and Metis Nations potentially affected by the project and indicates that it will continue to consult with these groups.¹²

¹⁰ EB-2015-0120 Application, Project Summary, Page 15 Paragraph 61

¹¹ Board Staff IR#6

¹² EB-2015-0120 Application, Project Summary, Page 20, Paragraph 84

In response to Board Staff IR#9, Union provided a summary of its consultation activities with First Nations and Metis Nations since the application was filed in March 2015 along with identification of any concerns raised.

Union confirms there have been no project refinements as a result of landowner consultations and there are no outstanding landowner matters.¹³

Union has assigned a land agent to the project to respond to any issues during construction and pre and post construction.

Energy Probe is satisfied that Union has undertaken appropriate consultation for the project. Energy Probe asks that Union provide in its reply submission its plan to provide its complete consultation notes as part of the public record in this proceeding.

Permits and Agreements

The NPS 6 pipeline (2.3 km) to service the FNX Victoria Mine will be constructed within the road allowance of Cream Hill Road. No land rights are required.

For the NPS12 pipeline (1.55 km), the majority of pipeline will be constructed within Union's existing easement, however, a short section, approximately 33 m will be constructed in a new easement¹⁴ and temporary lands will be required. A Pipeline Easement and a Temporary Land Use Agreement has been executed by Vale Canada Limited.¹⁵

The NPS 10 pipeline (2 km) will be constructed within the road allowance. No land rights are required.

Union requires crossing permits or agreements with Municipalities, Conservation Authority, railways and other utilities across the pipeline route. Union requires an encroachment agreement and there is one watercourse crossing that requires a permit.

Union received the encroachment agreement with Hydro One Networks Inc. on May 8, 2015 and expects to have a crossing permit from Conservation Sudbury by July 1, 2015.¹⁶

¹³ Energy Probe IR#7

¹⁴ Energy Probe IR#6

¹⁵ Board Staff IR#8

¹⁶ Board Staff IR#7

Energy Probe asks that Union please confirm in its reply submission that all outstanding permits and agreements will be in place by July 1, 2015 or provide the anticipated date of when the water crossing permit will be received.

Archaeological Assessments

Union indicates that the archaeological assessments required for the project have been initiated and will be completed by June 30, 2015.¹⁷

Energy Probe asks that Union please provide in its reply submission the status of the archaeological assessments and a summary of any issues raised and Union's response.

Conditions of Approval

Union accepted the draft Conditions of Approval provided by Board Staff with one clarification related to Condition 4 as follows:

Draft Condition 4 states: "Union shall advise the Board of any proposed change to Board approved construction or restoration procedures. Except in an emergency, Union shall not make any such change without prior notice to and written approval of the Board. In the event of an emergency, the Board shall be informed immediately after the fact."¹⁸

Union provided the following clarification:¹⁹

"It is Union's understanding of Condition 4, that Union will notify and request approval of the Board if any of the following changes are proposed, to the Board-approved construction or restoration procedures:

- *New permanent Land Rights are required*
- *Changes to the Design and Pipe Specification schedule*
- *Changes to the Construction and/or Restoration techniques*
- *Change to any of the Environmental Protection mitigation measures identified in the Environmental Report*

¹⁷ Energy Probe IR#10

¹⁸ Board Staff IR#10

¹⁹ Board Staff IR#10

- *For pipelines located within a road allowance*
 - *If the pipeline is to be constructed on a road not previously identified or will not be constructed on a road previously identified*
- *Changes to which pipeline is to be abandoned or the abandonment techniques*
- *Changes in construction and/or restoration procedures as a result of consultation with; the Ontario Pipeline Coordinating Committee, a Municipality, an Agency, and with First Nations or Métis Nation"*

Energy Probe submits that Union's clarification should be added to Condition 4 of the Conditions of Approval, with one additional bullet as follows:

- Changes in construction and/or restoration procedures as a result of the archaeological assessment

With the above addition, Energy Probe supports the Draft Conditions of Approval.

Union states that it will ensure that the recommendations in the EPP, commitments and the conditions of approval are followed and an environmental inspector will monitor construction activities and ensure that all activities comply with all conditions of approval.²⁰

Conclusions

In considering the above, Energy Probe supports the project subject to the comments noted above that include requests for Union to provide additional information in its reply submission and an addition to Condition 4 of the Draft Conditions of Approval.

Costs

Energy Probe requests that it be awarded 100% of its reasonably incurred costs in this application.

Respectfully submitted at Toronto, June 22, 2015.

²⁰ EB-2015-0120 Application, Project Summary, Page 16, Paragraph 66