OEB STAFF INTERROGATORIES

Pre-Approval NEXUS Long Term Contract

EB-2015-0166

Union Gas Limited

T1.Union.Staff.1

Interrogatory # 1

Ref: Application Covering Letter dated May 28, 2015 paragraph 1

At paragraph 1, Union makes the following statement:

> Please find attached Union Gas Limited's ("Union") application and evidence seeking pre-approval of the cost consequences of a long-term transportation contract that supports the development of new natural gas infrastructure.

OEB staff seeks clarity on the relief that Union is seeking.

(a) In regards to Union's reference to pre-approval of the "cost consequences", is Union requesting that the OEB grant approval now to **all** future gas transportation-associated costs it may incur over the 15 year term of the NEXUS contract, even in the event that other supply options become more economic or otherwise more attractive during the course of the 15 year contract term?

(b) Would there be any exceptions to the requested pre-approval? If so, please elaborate on what may be an exception.

T1.Union.Staff.2

Interrogatory # 2

Ref: Exhibit A / Page 2 / Lines 1-2

Union's evidence states that it intends to enter into a 15 year contract with NEXUS Gas Transmission (NEXUS).

Please briefly summarize the key points of other OEB proceedings in which Union has requested pre-approval of the cost consequences of long term transportation contracts. Please indicate the OEB's decision in terms of its acceptance, or rejection, of the application.

T1.Union.Staff.3

Interrogatory # 3

Ref: Exhibit A / Page 43 / Line 6

Union is seeking pre-approval of the gas consequences associated with the NEXUS pipeline.

Union indicates that the delivery point in the NEXUS transportation agreement is Union St. Clair. Is Union requesting pre-approval of the gas consequences associated with the transportation agreement on DTE in Michigan from Willow Run to Union St. Clair?

T1.Union.Staff.4

Interrogatory # 4

Ref: Exhibit A / Page 3 / line 6

Union's evidence states:

> The long-term contract requires a substantial financial commitment by Union Gas. The contracted volume of 150,000 Dth/d (158,258 GJ/d) of transportation capacity for 15 years will result in a total cost commitment estimated to be approximately $715 million.

Is the proposed volume of 150,000 Dth/day intended to solely meet Union's in-franchise customers' demand, or is some of the volume intended for ex-franchise customers?

T1.Union.Staff.5

Interrogatory # 5

Ref: Exhibit A / Pages 26-28

Union has said it has "anchor shipper" status on NEXUS meaning its participation is significant in terms of the project being able to proceed.

In the absence of Union and Enbridge committing to the Precedent Agreement volumes and 15 year contract length, would the NEXUS transmission project have the necessary commitment to be able to proceed?

T1.Union.Staff.6

Interrogatory # 6

Ref: Exhibit A / Pages 40-41

Union has estimated potential cost savings of over $700 million based on the volumes that the NEXUS supply will replace.

a) Are the cost savings related solely to Union's in-franchise customers?

b) What portion of the cost savings is expected to materialize for system gas customers versus direct purchase customers?

c) Are they are any other financial benefits that the NEXUS transportation system will provide to Union in terms of both its regulated and unregulated business activities? Please explain and quantify any such benefits.

T1.Union.Staff.7

Interrogatory # 7

Ref: Exhibit A / Pages 40-41 / Figure 5-5

Union at Figure 5-5 provides a summary of the landed cost analysis as of January 2015. The total landed cost of the NEXUS project is very similar to the Rover pipeline project. Union has further estimated a total cost saving of $708 million over the 15 year term to sales service customers as compared to current contracted supplies.

What would be the quantum of the total cost savings if Union selected the Rover pipeline project in place of the NEXUS project?

T1.Union.Staff.8

Interrogatory # 8

Ref: Exhibit A / page 41 / lines 7-8

Union estimates potential cost savings of over $700 million over the term of the contract to sales service customers compared to current contracted supplies.

What is the impact on a typical residential customer's bill of incorporating the NEXUS contract volumes into Union's portfolio versus the status quo portfolio – i.e. without NEXUS?

T2.Union.Staff.9

Interrogatory # 9

Ref: Exhibit A / Page 11 / Lines 1-13

Union explains that the NEXUS capacity will allow it to displace Western Canadian Sedimentary Basin (WCSB) supplies that are becoming less economic over time. Union further indicates that the NEXUS capacity will replace an Alliance Pipelines contract and TransCanada long-haul transportation contracts serving Union North and South.

a) In its assessment of the landed costs for the NEXUS alternative, has Union included the cost impact of any capacity turnback related to TransCanada's Mainline and Alliance Pipelines tolls?

b) If there are capacity turnback costs related to the discontinued pipeline capacity, has the corresponding cost impact on Union's ratepayers been assessed? If not, please quantify these costs and update the landed cost assessment to include these costs. Please include all assumptions used.

T2.Union.Staff.10

Interrogatory # 10

Ref: Exhibit A / Page 11 / Lines 1-13

Union states that once conversion of TransCanada long-haul transportation from Empress to short-haul transportation from Dawn has been completed customers in Union North will have access to supplies at Dawn including supplies from NEXUS.

Will all areas in Union North have access to NEXUS supply, for example, Union MDA and Union WDA?

Can Union diversify the Union North portfolio without having to contract for NEXUS capacity?

T2.Union.Staff.11

Interrogatory # 11

Ref: Exhibit A / Page 28 / Lines 1-12

Union states that it chose to bid for 150,000 Dth/d of NEXUS capacity which was the minimum volume required to qualify as an "anchor" shipper.

a) Did Union bid the 150,000 Dth/d in order to meet its projected demand or was it because it wanted to be an "anchor" shipper?
b) Can Union explain how Enbridge was able to achieve "anchor" shipper status when it only contracted for 110,000 Dth/d?

T2.Union.Staff.12

Interrogatory # 12

Ref: Exhibit A / Page 31 / Figure 5-2

The figure shows the Union South Portfolio as of January 2015 and November 2017 (assuming that the OEB approves the present application).

Please provide a table that shows all upstream transportation capacity that Union has contracted to Dawn as of November 1, 2105 and November 1, 2017 (assuming they receive pre-approval of the gas consequences associated with the NEXUS transportation agreement).

T2.Union.Staff.13

Interrogatory # 13

Ref: A/3/1 page 20 / line 10

Please explain the role played by the NEB-approved TransCanada Mainline Settlement Agreement in the Union's decision to sign the Precedent Agreement with NEXUS?

T2.Union.Staff.14

Interrogatory # 14

Ref: Exhibit A / Page 31 / Figure 5-2

The figure shows the Union South Portfolio as of January 2015 and November 2017 (assuming that the Board approves the present application).

a) How much transportation capacity will Union continue to hold on Vector pipeline as of November 1, 2015?

b) Does Union plan to displace any Vector capacity for capacity on NEXUS?

T2.Union.Staff.15

Interrogatory # 15

Ref: Exhibit A / Page 40 / Figure 5-5

The figure shows the landed cost analysis for various alternatives to NEXUS. One alternative is simply to purchase gas supply at Dawn (option 6).

What assumptions did Union make for this option in terms of incremental supply to Dawn? For example, did it assume that the Rover project was constructed or did it assume that NEXUS was built, but Union didn't contract for capacity - or did it assume the status quo? Please explain the option of purchasing at Dawn fully.

T2.Union.Staff.16

Interrogatory # 16

Ref: Exhibit A / Page 15 / lines 8-12

Union states that instead of supplies flowing on DTE to Vector, they will flow on the DTE system to the International Border and then using the St. Clair to Dawn facilities.

Are there currently any volumes flowing to Dawn using on the St. Clair to Dawn facilities? If yes, what are the volumes and what upstream transportation capacity is being used to deliver gas at St. Clair?

T2.Union.Staff.17

Interrogatory # 17

Ref: Exhibit A / Page 14 / Lines 3-6

Union has indicated that the NEXUS project will transport Marcellus and Utica shale gas to customers in Ontario. Union plans to transport the gas to Dawn through St. Clair Pipelines.

As an alternative to NEXUS, could Union import Marcellus and Utica shale gas volumes into Ontario through any existing infrastructure? If yes, please provide the details.

T3.Union.Staff.18

Interrogatory # 18

Ref: A / 5 / page 1 / Landed Cost Analysis

The table references Foreign exchange rates.

Staff is interested in understanding the exchange rate risk should there be a prolonged period of weakness in the Canadian dollar relative to the US dollar.

Please re-run the model assuming an exchange rate of 1.40 in all years.

Please show the impact of the exchange rate analysis on the various supply paths versus the landed cost analysis as presented in the evidence.

T4.Union.Staff.19

Interrogatory # 19

Ref: A / 1 / Exhibit A / Restated Precedent Agreement / page 16 of 68

Please explain fully the 90 day “Temporary Waiver of Conditions Precedent – Governmental Authorizations” feature at paragraph 7) (d) of the Restated Precedent Agreement. Please specifically indicate if the waiver allows Union, in the event of a regulatory delay in receiving approval from the OEB, to extend the October 1, 2015 deadline by 90 days.

T4.Union.Staff.20

Interrogatory # 20

Ref: Exhibit A / Pages 45 / Lines 12-13

Union has negotiated a Most Favoured Nations (MFN) clause that is contained within the Precedent Agreement that provides Union the ability to amend the Precedent Agreement should another similar shipper negotiate more favourable terms than what Union has received.

a) Under what specific conditions can Union exercise the MFN clause?

b) What types of contract changes could be sought to the Precedent Agreement under the MFN clause?

c) If another shipper were to offer more favourable terms than what Union has received from NEXUS, explain the process of how Union would amend the Precedent Agreement.