

By e-mail

April 17, 2014

**The Ontario Energy Board
Suite 2700, 2300 Yonge St.
Toronto, Ontario
M4P 1E4
Attention: Ms. Kirsten Walli – Board Secretary
Email: BoardSec@ontarioenergyboard.ca**

Re: EB-2011-0400 - Red Lake Project

Gas Service Extension to McManus/Chukuni Subdivisions

Dear Ontario Energy Board Members:

I am writing this letter on behalf of the residents of the Chukuni/McManus subdivision in the Municipality of Red Lake. The letter culminates an undertaking initiated by Mr. Larry Herbert and other residents in 2013. The approved Leave to Construct (LTC) for Phase 2 of the Red Lake project included installation of natural gas service to the subdivisions noted above. This work was not done at the time the Union Gas crews demobilised.

The Leave to Construct EB-2011-0040 approved by the Board, included the McManus/Chukuni subdivisions in the scope of work. While construction of the services to the different towns was underway in 2012, Union Gas carried out a door-to-door survey in the subdivision and later advised the residents that they would not be installing natural gas service to these subdivisions. It is our view that the process followed by Union Gas was incomplete and produced an unrepresentative conclusion. According to residents, Union Gas interviewer's discussion tended to highlight two negative issues:

1. The anticipated high cost per household to install the service lines to each lot, and

2. Many residents were using alternative heat sources such as wood and geothermal and were likely not to subscribe.

A more positive approach may have had a different result. For example, there are many opportunities for neighbours to share feed lines that could reduce costs.

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The Union Gas representative did not advise the residents that these subdivisions were included in the approved LTC. It was implied by the representative that this installation would proceed only at the discretion of Union Gas. This had a discouraging effect on some of the potential customers.

We firmly believe that it is feasible to provide service to McManus/Chukuni and are willing to work with Union Gas to accomplish this. As a first step, in 2013, Mr. Larry Herbert conducted a door-to-door survey of the residents of the McManus/Chukuni subdivisions in September to see how many residents were still interested in receiving natural gas service. You may recall that Mr. Herbert submitted copies of this survey to the Board. A copy of this survey is also included with this letter as Appendix B.

The resident's survey, summarised in Table 1 below, confirmed the interest today at Chukuni/McManus in obtaining natural gas remains strong with 83% of the household surveyed expressing interest and only 5% not interested. Forty-five percent (45%) of the homeowners surveyed advised that they had applied for service in 2012. It is also worth noting that only 45% of the residents were aware that the LTC included servicing the subdivision.

A total of 76 households participated in the survey representing approximately 85% of the property owners. Some residents were not available at the time of the survey. A number of new residences have been constructed since the LTC was approved and at least 5 will be built in 2014. Ten homes have been constructed in 2012/2013. Please refer to the attachment labelled Figure 1 which shows the location of these new homes.

In addition, there are new subdivisions developed in the town of Red Lake and in the Rahill Bay area that could be serviced to add to the customer base. By

combining these three projects and possibly other areas, the cost of mobilizing the pipeline crew to service Chukuni/McManus could be offset.

Table 1 Summary of Residents Survey taken September 2013

	Chukuni		McManus		Combined	
	#	%	#	%	#	%
Households surveyed	27		49			
Interested in Natural Gas	27	100	36	73	63	83
Not Interested	0	0	4	8	4	5
Filed service application	16	59	15	31	31	41
Did not file	11	41	23	47	34	45
Aware of terms of LoC	20	74	14	29	34	45
Unaware of terms of LoC	7	26	27	55	34	45

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It is our understanding that Union Gas intends to file their Post Construction Financial Report (PCFR) for Phase 2 with the OEB on April 23, 2014. We would like to bring to the Board's attention once again the fact that Union Gas did not complete the scope of work as approved in the EB-2011-0040 LTC that included service to the above-mentioned subdivisions. We have attached a copy of a letter from Union Gas to the OEB dated May 24, 2012. This letter reconfirms Union Gas scope of work which includes service to the Chukuni and McManus subdivisions.

While it is understandable that some deviations from a plan to accommodate site conditions are made, it is incomprehensible that significant changes in scope, both major additions and deletions of service from the approved LTC, could occur without formal notification and approval of the Ontario Energy Board (OEB). In addition, to our knowledge, funding agencies, the Municipality of Red Lake and

residents affected by the change were not engaged in formal consultation or dialogue.

We would like to point out that the residents of the subdivisions were very disappointed that service was not installed as planned during Phase 2 construction. We appreciate that the mains installation crews have demobilized and that some planning will be required to optimise remobilization to service Chukuni and McManus (and possible other new subdivisions in the Red Lake area). Based on this, we respectfully request that the Board considers this case and hopefully render a decision that will require Union Gas to complete the scope of work by October 2016.

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In summary we would like to see Union Gas fulfil its obligations under the LTC and provide natural gas service to the Chukuni/McManus subdivisions. As part of the Post Construction Financial Report review, the OEB should consider investigating Union's decision to not proceed with this work.

Attached in Appendix A are additional background information and discussion points. We would be happy to meet with Board Staff and/or the Board Panel to answer any questions.

Yours truly

John Frostiak

On behalf of the Chukuni/McManus residents group

C.C.

Pascale Duguay – Manager Gas Contracts - Pascale.Duguay@ontarioenergyboard.ca

Larry Herbert – Chukuni/McManus resident - larry_herbert@yahoo.com

Chris Cormier –MGM Goldcorp Red Lake Mine - Chris.Cormier@goldcorp.com

Phil Vinet – Mayor – Municipality of Red Lake - philvinetmobile@gmail.com

Mark Vermette – CAO – Municipality of Red Lake - mark.vermette@redlake.ca

Bill Greenway – EDO -Municipality of Red Lake - bgreenway@redlake.ca

David Sword- Union Gas - DPSword@uniongas.com

Attachments:

Appendix A – Discussion Points

Appendix B – Copy of September 2013 Residents Survey

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Figure 1 – Plan of Subdivision – showing new lots and building activity from 2012 to 2014

Figure 2 - Schedule 8 extracted from EB -2011-0040 LTC showing alternate routes for service to McManus

Document 1 – OEB Decision Order – Union Gas Red Lake Project – 20110725

Document 2 – Letter – Union Gas to OEB – May 24, 2012 - COA EB-2011-0040 Red Lake Project

Document 3 – Letter Union Gas to OEB - COA June 11, 2013 - Board File # EB-2011-0040/0041/0042

Document 4 – Union Gas Expansion Guidelines

Note: Documents 1 to 4 delivered by email only

Appendix A - Discussion points

Appendix A

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Background

The LTC approval for Phase 2 gas service received from the OEB included piping to both of the McManus/Chukuni subdivisions. Union Gas carried out public consultation in Red Lake on the 2011 LTC gas service plan and at that time there was no indication that providing service to these areas was an option. The LTC is clear that piping to these subdivisions is included in the plan.

In 2012, during the construction of Phase 2, Union Gas made two significant deviations from the approved Phase 2 LTC. The construction of service to the Chukuni and McManus subdivisions was dropped even though this service was included in the LTC and service to the MNR fire centre was added which was not part of the original plan.

Discussion Points - Gas Service Extension to Chukuni/McManus Subdivisions

- **Sequence of approvals and filings related to the cancellation of Chukuni and McManus.**
 - The 1999 and the 2011 Leave to Construct (LTC) approvals for Phase 2 included gas service to both of these subdivisions.
 - Union Gas carried out public consultation on the 2011 LTC gas service plan and there was no indication at that time that gas service to Chukuni/McManus was "optional".
 - On May 24, 2012, UG advised the OEB that they were proceeding with Phase 2 as per the LTC filed plan excepting Rubicon would not be serviced. (see file Union_COA_20120524.pdf attached). Note that in the May 24, 2011 notice to OEB, Chukuni/McManus were still included in the gas service area.
 - Sometime in 2012, during the mid-construction point of Phase 2, Union Gas decided to drop Chukuni and McManus and add service to the MNR fire base (which was not included in the original plan).

- On June 11, 2013 Union filed their "Interim Monitoring Report" (Union COA_3-2.1_20130611.pdf - attached) as part of the Conditions of Approval in the Ontario Energy Board's Decision and Order Condition 3.1.
- This was the first formal notice that Chukuni and McManus were being dropped from the serviced area.
- Union's June 11, 2013 Interim Report to OEB came **8 months after Phase 2 was completed.**
- See excerpt below from the "Interim Monitoring Report" from Page 4 and the top of page 5.

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In Town Distribution Piping

During construction, a number of changes took place with Phase II distribution piping (in town piping). Those changes include moving the pipeline from one side of the road to the other in order to simplify construction and installation, obtaining a small easement in the Community of Red lake to avoid a watercourse crossing and rock outcrop, extending the pipeline further down Forestry Road (Red Lake) in order to serve the Ministry of Natural Resources fire base, extending the pipeline in Balmertown off of Nungessor Road to service a small industrial park and not piping the Chukuni Subdivisions. Mapping identifying the final

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Red Lake Pipeline Project Interim Monitoring Report

location of the distribution pipeline system can be found in Appendix B.

- It is worth noting that Union Gas did not provide OEB any details related to the unilateral decision to cancel the Chukuni/McManus subdivisions other than the short statement above.
- There was not any detailed analysis of the reasons/costs for not proceeding.
- There was no indication to OEB of the number of residents affected.
- Union provided no rationale to the OEB for the decision (e.g. Cost, schedule, uptake etc.).
- Union did not indicate that they carried out any public consultation related to the cancellation.

- Residents of Chukuni and McManus are not aware of any formal filing by Union with a record of resident consultation, customer surveys and responses.

What are Union's Obligations for Municipal Expansion Projects?

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- We assume that Union Gas is obliged to carry out all of the planned Phase 2 work as approved by OEB in the LTC.
 - The OEB LTC approval for Phase 2 required Union Gas to notify OEB about any changes in service plans.
 - It should not matter that the service costs may be moderately higher than estimated.
 - Historically, there are always plus/minus cost variances for municipal expansions.
 - In the case of costs lower than estimated, the funders and or the rate base receive the benefits of the savings.
 - In the case of cost overruns, we understand that Union Gas is supposed to explain the reason for cost variances to the OEB in the Post Construction Financial Report and, if accepted by the OEB, the costs are recovered in the next re-basing.
 - We see no reason why Union did not follow this established process.
- **Apparent UG rationale for dropping this service area was generally as follows:**
 - Uptake (number of signed gas applications) was low.
 - Too much rock on road right-of-way (high cost for 2" line).
 - Too much rock for service lines to homes.
 - Long service lines (in excess of 20 m) would require customer contribution and UG believed that this would negatively impact uptake.
 - Subdivision penetration of heat pumps, electric heat and wood heat would reduce uptake and annual consumption.
 - **Residents and advocates for gas service to Chukuni/McManus comments in response to UG rationale :**
 - Union Gas surveys of customer intentions did not accurately capture the connection potential or homeowner interest.
 - Anecdotal and householder survey information (Table 1) indicates that

many residents in this area were effectively "discouraged" from signing up because UG advised that the subdivisions were unlikely to be served.

- This tended to pre-empt uptake commitments.
- By contrast, 83% of the residents contacted through a resident sponsored survey would like to connect to gas.
- There is some information from local residents that Union Gas overestimated the quantity of rock and there was insufficient attention given to alternate entry routes.
- There is considerable local knowledge (e.g. bedrock locations, overburden depths and alternate routing)
- Residents would be happy to cooperate with Union Gas to optimise the route into the subdivision by providing local expertise and input.
- A suggested alternate route that avoids bedrock and reduces the length of the branch line from Highway 125 to McManus St. is shown on the plan map in Figure 2. Distance is reduced from approximately 750 ft. to 450 ft.
- Knowledgeable residents advise that there are generally good overburden conditions for most of the mains runs as well as service lines.
- In any event, ground conditions for mains and service lines in the newly serviced areas of Red Lake, Balmertown and Cochenour are not significantly different than the ground conditions at Chukuni/McManus.
- The homes in these subdivisions are generally much larger than the Red Lake average home size and annual gas consumption for space and water heating and accessory appliances are likely to be much higher than Red Lake average.
- Many wood heat homes may be expected to switch the bulk of heating and hot water fuel to gas – considering the low cost of gas and convenience of the fuel.
- There are 12 additional lots in the subdivision that were not in the plan when the LTC was granted.
- There are 11 new dwellings on lakefront lots and there are 3 new dwellings that are not on lakefront lots.
- At least two additional lakefront owners and three others have plans to construct this summer. (See plan map in Fig. 1 attached)
- Existing waterfront owners who use heat pumps are potential gas customers as gas could be used to supplement heat pumps as an energy source. Many heat pump systems struggled to keep up with energy demands this past winter due to the persistence of extremely cold

temperatures.

- Significant increases (of up to 40%) in the cost of electricity can be expected in the area according to the provincial government. This will drive more people to connect to natural gas service.
- The projected electrical demand in the Red Lake area is increasing and is near the capacity of the hydro transmission line feeding the area. Fear of future power brownouts exist.
- Many residents are willing to pay a reasonable connection cost for "over-length" service connections and there is also the option for adjoining lot owners to share a line and connection costs.
- An estimate of the distance from property line to dwelling was made for 38 randomly selected lots. The results are summarised in Table 2 below. The average distance is 61 metres. Ninety percent (90%) or more of these would be considered free digging (no bedrock). The new housing all has buried electrical service. There are many opportunities to share gas service between adjacent dwellings in the same manner as Hydro One has done their connections.

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• **Table 2 Estimated Length of Service Connection**

	McManus	Chukuni
Number Estimated	25	14
Average Distance (m)*	68	45
Median (m)	67	45

- *** Based on random selection of lots and estimated distances**
 - See Union Gas *Distribution Expansion Guidelines* – Attached.
 - Based on these guidelines, the first 20 m is at no charge.
 - There would be a charge of \$30 /m for each additional metre.
 - Assuming an average of 40 metres @ \$30 = \$1200 to provide individual service to the average home.
 - This could be recovered quickly since typical home heating costs (oil/propane electric) is \$3000+/yr.
 - The cost of service extensions could be considerably reduced by shared service to two lots.

- Also, it is worth noting that the majority of service extensions to the homes in the Municipality of Red Lake were less than 10 metres in length which is relatively short compared to the franchise average.

• **What is the scale of the Chukuni/McManus scope change?**

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- There are approximately 100 subdivision lots in Chukuni/McManus. A strong majority of the occupied lots signed a survey indicating support for gas service.
- Red Lake is a growing community and every year more new homes are built in these subdivisions.
- Union's LTC forecast 1,577 residential, commercial and light industrial customers would connect within 10 years of initial service to Red Lake.
- On a straight number basis, 100 Chukuni/McManus customers potentially represent 6.34% of the forecast uptake."
- Phase 2 "in town" costs were forecast at \$12,512,140
- 6.34% represents \$793,270.
- The **total** forecast cost of the project attributed to Phase 2 was \$19,512,140 (includes the municipal share of Phase 1 lateral).
- Using the **total** cost of the project (e.g. \$19,512,140) the 6.34% represents \$1,237,070.
- So the savings to Union for not proceeding with Chukuni McManus subdivisions is theoretically between ~\$800,000 and \$1,237,000.
- Based on the above, we submit that the cancellation of the Chukuni/McManus subdivisions amounted to a material change in the LTC scope and should have required prior OEB approval.

• **What are Unions "service obligations" under the LTC process?**

- We understand that normal practice for a "municipal service" expansion application, Union would file with the OEB schedules/street maps showing the service area, an estimate of capital cost, anticipated uptake (number of residential and commercial connections) over a 10 year horizon and a revenue stream from distribution revenues over a 40 year period.
- These figures and other financial and cost assumptions are input into a Profitability Index model (PI) which generates a contribution that Union will make towards the project. Generally this PI is between 0.8 and 1.0 – the intent being to have little or no impact on other ratepayers in the Union Gas pool.

- A cost overrun or a potential cost overrun should not give licence to UG to arbitrarily and materially change the scope of the LTC approval without carrying out the following:
 - OEB should be notified and reasons given for the changes and implications to the project.
 - Information provided to the OEB and the public should include the scale of changes and evidence of public and agency engagement.
 - The funding agencies provided project funds on the basis of the LoC scope of work. If that scope is reduced, then typically the funding agencies should be formally consulted.
 - The Municipality of Red Lake granted a franchise agreement to UG based on Union's LTC application and the OEB LTC approval. A significant change of scope should require Union Gas to provide details of the change, reasons for the change and alternatives considered.
 - Typically, a significant change might require formal approval by Red Lake Council. To our knowledge there has been no Council debate on the scope change and no Bylaws passed to amend the Franchise Agreement with Union Gas.
 - Finally, impacted residents should be consulted and given an opportunity to comment to OEB prior to UG making a change to the LTC scope.

APPENDIX B Cover Letter with Residents Survey
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Via email

20 September 2013

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Union Gas Limited
1211 Amber Drive
Thunder Bay, Ontario
P7B 6M4

Attention: Mr. David Sword, District Manager
Northwest District

Dear Mr. Sword:

Re: Union Gas Limited Red Lake Pipeline Project–Board File #EB-2011-0040/0041/0042

On behalf of the Chukuni & McManus Subdivisions residents who completed the attached survey, please accept this letter as a formal objection to the changes as outlined in the Condition of Approval Report dated June 2013.

In the original Leave to Construct application to the Ontario Energy Board, the Chukuni & McManus Subdivisions were included in the application, as per the attached EB-2011-00-40-Schedule 8 service map. We respectfully request the rationale as to why Union Gas did not provide service to our homes.

Since the original Leave to Construct application was submitted to the OEB in 2011, approximately 29 new lots in the McManus Subdivision that have been developed, 5 of which have newly built homes.

If you have any questions in this regard, please do not hesitate to contact the undersigned.

Yours very truly,



Larry Herbert

Encl. (s) EB-2011-00-40–Schedule 8 Service Map
Resident Surveys–Chukuni & McManus Subdivisions

CC: Mayor & Council–The Corporation of the Municipality of Red Lake

Natural Gas Survey

September 2013

Name	Address/Phone #	Are you interested in gas service?	Did you previously sign a gas line service application with Union Gas?	If not, why not?	Were you aware that Chukun/McManus was included in the original OEB/appr	Signature
1	[Redacted]	YES	DID NOT SIGNUP, BUT REQUESTED	NO CONTACT WITH UNION GAS, AT THE TIME TO SIGNUP.	NO	[Redacted]
2	NA	YES	NO, NEW HOMEOWNER	NEW HOMEOWNER	NO	[Redacted]
3	[Redacted]	YES	NO	JUST TALKED TO THE GUY?	NO	[Redacted]
4	[Redacted]	YES	NO, HATED UNION GAS PERSON	ALWAYS WANTED GAS	YES	[Redacted]
5	[Redacted]	YES	YES	ALWAYS WANTED	NO	[Redacted]
6	[Redacted]	YES	YES	CONTACT DID NOT RETURN	NO	[Redacted]

Natural Gas Survey

September 2013

Name	Address/Phone #	Are you interested in gas service?	Did you previously sign a gas line service application with Union Gas?	If not, why not?	Were you aware that Chukun/McManus was included in the original OEB/appr	Signature
7/		yes	yes	already installed	no and should be	
8/		yes ham	yes ham	UNDER CONSTRUCTION	YES	
9/		yes	yes		no	
10/		Yes	Spoke w the reps -- told they would not consider other place	No		
11/						
12/						
13		YES	NO	No	NO	

Natural Gas Survey

September 2013

Name	Address/Phone #	Are you interested in gas service?	Did you previously sign a gas line service application with Union Gas?	If not, why not?	Were you aware that Chukun/Mickianus was included in the original OEB/appr	Signature
14/		YES	NO	SOMEONE CALLED	NO	
15/		NO	NO		NO	
16/		NO				
17/		YES INTERESTED	NO	NO ONE CONTACTED	NO	
18/						
19/		YES	NO	NOT INTERESTED AT THE TIME	NO	
20/		YES	YES		YES	

Natural Gas Survey

September 2013

Name	Address/Phone #	Are you interested in gas service?	Did you previously sign a gas line service application with Union Gas?	If not, why not?	Were you aware that Chukun/McMannus was included in the original OEB/appr	Signature
14/		YES	NO	SOMEONE CAME	NO	
15/		NO	NO		NO	
16/		YES				
17/		YES INTERESTED	NO	NO ONE CONTACTED	NO	
18/						
19/		YES	NO	NOT INTERESTED AT THE TIME	NO	
20/		YES	YES		YES	

Natural Gas Survey

September 2013

Name	Address/Phone #	Are you interested in gas service?	Did you previously sign a gas line service application with Union Gas?	If not, why not?	Were you aware that Chukun/Mckhanus was included in the original OEB/appr	Signature
21/ [REDACTED]	[REDACTED]	YES	NO	UNDER CONSTRUCTION.	YES.	[REDACTED]
22/ [REDACTED]	[REDACTED]					[REDACTED]
23/ [REDACTED]	[REDACTED]	YES	YES, ALLOWING ME TO MANAGE	CONTACTED SOMEONE IN TORONTO	NO	[REDACTED]
24/ [REDACTED]	[REDACTED]					[REDACTED]
25/ [REDACTED]	[REDACTED]	YES	YES		YES	[REDACTED]
26/ [REDACTED]	[REDACTED]	YES	YES		NO	[REDACTED]
27/ [REDACTED]	[REDACTED]	YES	YES		NO	[REDACTED]

Natural Gas Survey

September 2013

Name	Address/Phone #	Are you interested in gas service?	Did you previously sign a gas line service application with Union Gas?	If not, why not?	Were you aware that Chukuni/McMannus was included in the original OEB/appr	Signature
28/		yes	No	New Resident	No	
29/		YES	YES		NO	
30/		Yes	Yes		Yes	
31/		Yes	Yes		No	
32/		Yes	Yes		Yes	
33/		Yes	No	Isn't an option.	Yes	
34/		YES	SAID YES		YES.	

Natural Gas Survey

September 2013

Name	Address/Phone #	Are you interested in gas service?	Did you previously sign a gas line service application with Union Gas?	If not, why not?	Were you aware that Chukun/McManus was included in the original OEB/appr	Signature
28/		yes	NO	New Resident	Yes NO	
29/		YES	YES		NO	
30/		Yes	Yes		Yes	
31/		Yes	Yes		No	
32/		Yes	Yes		Yes	
33/		Yes	NO	Wbriit as an option.	Yes	
34/		YES	SAID YES		YES.	

Natural Gas Survey

Name	Address/Phone #	Are you interested in gas service?	Did you previously sign a gas line service application with Union Gas?	If not, why not?	Were you aware that Chukuni/McManus was included in the original OEB/appr	Signature
[Redacted]		YES	YES		NO	
		Yes	no ^{no store} yes , but I was told it wouldn't happen.		Ne	
		YES	NO - AS THEY SAID NO LINE TO GAS DIVISION		NO	
		YES	NO - HAVE GEOGRAPHICAL		NO	
		YES	NO	CONTACTED AT STORE BUT NOT SIGNED	NO	
[Redacted]		yes	No		No	

Natural Gas Survey

September 2013

Name	Address/Phone #	Are you interested in gas service?	Did you previously sign a gas line service application with Union Gas?	If not, why not?	Were you aware that Chukun/Mekkanus was included in the original OEB/appr	Signature
42		NO	NO	NOT INTERESTED	YES.	
43		YES	VERBALLY YES.	YES UP UNTIL THIS SPRING. IT WAS A GO.	YES.	
44		YES	NO	new construction	NO	
45		YES.	NO	TOLD WE WERE GOING TO GET SERVICE	YES.	
46						
47		Yes	Yes		Yes	
48		yes	No	COST- UNKNOWN.	yes	

Name	Address	Phone	Are you interested in getting gas service?	Did you complete an application for gas service initially with Union Gas?	If not, why not?	Are you aware service to Chukuni/McMannus subdivision was included in original Ontario Energy Board approval?
Chukuni Subdivision		735-7711	yes	yes		yes
			yes	No	Didn't receive	No.
			yes	yes		No
			yes	yes		yes
			yes	YES		No
			yes	No	Didn't get one	No
			yes	yes		yes
			yes	No	didn't see the print	No
			yes	No	Thought gas was coming to customers	yes
			yes	yes		yes
			yes	yes		yes

**Figure 2 Options for Feeder Line to
McManus Subdivision**

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Schedule 8
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