August 19, 2015

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

Dear Ms. Walli:

RE: EB-2015-0010 – Union Gas Limited – 2014 Disposition of Deferral Account Balances and 2014 Earnings Sharing Amount – Union Response to CME and IGUA Letters

On August 5, 2015, counsel for the Canadian Manufacturers & Exporters filed a letter with the Board in the above noted proceeding (the "CME Letter") [1]. As discussed further below, the CME Letter seeks to encourage the Board to initiate a gas supply related proceeding. On August 11, counsel for the Industrial Gas Users Association ("IGUA") filed a letter in support of the CME Letter. This is Union's response to these two letters.

The CME Letter calls on the Board to "provide an appropriate forum to hear evidence and make findings of principles and criteria which the utilities respective gas acquisition strategies may be evaluated for approval to ensure they are in the public interest."

The premise on which the CME Letter rests appears to be two-fold. First, the CME Letter indicates that both Union and Enbridge Gas Distribution are "required to file their Gas Supply Plans as part of their annual applications for Disposition of Deferral Accounts and Earning Sharing Amounts." Second, the Letter indicates that parties and the Board may not have the opportunity in any particular application to undertake a "holistic" review of the North American gas supply market. Both statements are incorrect.

1. The Gas Supply Plan and Memorandum

The Board has already had before it, and parties have had an opportunity to comment on, extensive evidence and expert analysis (i) relating to Union's gas supply planning process, methodology, and plan and (ii) verifying that those aspects reflect appropriate and objective planning principles. There is no reason to initiate a new proceeding to consider what has already been done by the Board.

[1] The CME Letter indicates that, along with CME, it has been filed on behalf of the Consumers Council of Canada, the Building Owners and Managers Association of Greater Toronto, the Federation of Rental-housing Providers of Ontario, the Vulnerable Energy Consumers Coalition, the London Property Management Association and the School Energy Coalition.

Furthermore, there is no requirement in Union's Board-approved IRM Agreement, or otherwise, that Union file its Gas Supply Plan as part of its Non-commodity Deferral Account and Earnings Sharing proceeding, nor that Union seek any specific approval from the Board as part of that proceeding. For this reason, Union sought no approval from the Board in EB-2015-0010 in relation to the costs associated with its Gas Supply Plan. As noted below, Union does have obligations to file its Gas Supply Plan Memorandum for information purposes and to present the Gas Supply Plan Memorandum at its annual stakeholder meeting.

In EB-2011-0210 (Union's 2013 Cost of Service proceeding), the Board directed that Union "file with the Board an expert, independent review of its gas supply plan, its gas supply planning process, and gas supply planning methodology." This review, performed by Sussex Economic Advisers ("Sussex"), was filed in EB-2013-0109 (Union's 2012 Non-commodity Deferral Account and Earnings Sharing proceeding). The Sussex Report verified that Union's gas supply planning process, methodology, and plan reflects appropriate planning principles that are objectively applied and result in a Gas Supply Plan that is "right sized". Sussex concluded that:

- Union's guiding principles are sound and similar to other LDCs;
- Union's design day demand forecast is appropriate, consistent and aligned between Union North and Union South, and similar to other LDCs;
- Union's gas supply portfolio reflects the circumstances of each area and is right-sized;
- Union's approach to de-contracting/re-contracting is reasonable and similar to other LDCs; and,
- Union's optimization approach is reasonable and consistent with the approaches of other LDCs.

In its Report, Sussex recommended that Union prepare a Gas Supply Plan Memorandum to provide a narrative documentation of the Gas Supply Plan including the underpinning assumptions and how the Plan conforms to the planning principles. Union agreed with all of Sussex's recommendations, including the preparation and filing of a Gas Supply Plan Memorandum. In its Decision, the Board stated:

> *"The Board finds that Union responded appropriately to the EB-2011-0210 directive to file an independent review of its gas supply plan." p.8*

Union filed the first Gas Supply Plan Memorandum in EB-2014-0145 (Union's 2013 Non-commodity Deferral Account Disposition and Earnings Sharing proceeding). As part of the EB-2014-0145 Settlement Agreement, at Section 17: Scope of the Gas Supply Memorandum, the parties agreed:

> *"that Union will file with its annual rates application (in about September of each year), for information, its anticipated gas supply plan for the gas year commencing in November of that year and that this filing will take the form of Union's gas supply plan memorandum. Union will continue to present a review of the prior winter at the Spring stakeholder meeting as contemplated by the EB-2013-0202 Settlement Agreement approved by the Board."*

There were no specific criticisms or suggestions by the parties regarding the Gas Supply Plan Memorandum.

Union filed the second Gas Supply Plan Memorandum in EB-2015-0010 (Union's 2014 Non-commodity Deferral Account Disposition and Earnings Sharing proceeding). Finally, Union will file the Gas Supply Memorandum for the 2015/2016 gas year in September 2015 as part of its 2016 Rates application. Parties will, of course, be able to ask questions in that case in relation to the Memorandum.

2. A Review of Gas Supply Issues

The CME letter notes concerns that gas supply issues are raised within proceedings currently before the Board including EB-2014-0182 (Burlington Oakville Project) and EB-2015-0166 (NEXUS Pipeline Project). The CME letter states that "what is missing from such a case specific analysis is a more holistic review of Union and EGD's respective Gas Supply Plan Memoranda taking into account the rapid growth of Marcellus/Utica shale gas reserves and production". Union disagrees since, as noted above, a holistic consideration of Union's gas supply methodology and plan has occurred. And, with respect to shale gas, Union's Gas Supply Plan Memorandum specifically discuss the changing gas supply dynamics in North America, in particular the impacts of the Marcellus/Utica shale gas, stating:

> *"While natural gas reserves still exist in mature natural gas basins, the economics of natural gas production favors new emerging production basins such as Marcellus and Utica Shale. This shift in terms of where natural gas is being produced is fundamentally changing how natural gas flows in North America". (p. 7)*
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> *"Marcellus and Utica shale gas present Ontario customers, including power, industrial, commercial and residential, with an opportunity to diversify their natural gas supply portfolio and replace declining WCSB supply. Accessing this new supply will be essential to providing diversity of supply and affordable energy prices to fuel Ontario's economic competitiveness. With new infrastructure, access to these new, proximate and abundant sources of supply can increase reliability and security for the Ontario natural gas supply portfolio" (p. 8)*
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> *"The Appalachian Basin (Marcellus and Utica supplies) has experienced the most prolific natural gas production growth in North America." (p. 33)*

Ultimately, it is Union's position that, to the extent a particular proceeding gives rise to a gas supply related issue, that issue should be dealt with in the context of the proceeding, as has been done successfully by the Board in the past. As an economic regulator, the Board in setting rates has considered the cost associated with gas supply. The Board has likewise considered the implications of supply plans on the appropriateness of proposed facilities. In so doing, parties, subject to relevance, can fully consider the implications of gas supply issues and the Board has the jurisdiction to consider those aspects and to reach conclusions in the public interest in the context of an application that has a direct effect on ratepayers. The gas supply plan concerns noted by the CME letter are live issues in EB-2014-0182 and EB-2015-0166 and those concerns should be dealt with in those proceedings. Indeed, the assessment of "potential benefits to ratepayers of accessing gas from Marcellus/Utica at Niagara/Chippawa, compared with accessing Marcellus/Utica gas at Dawn" urged in the CME Letter is a matter which is directly in issue in EB-2014-0182. Union has done this comparison. Through its comparison, Union found that Niagara is a trans-shipment point between TransCanada and three U.S. pipelines. Despite its proximity to the Marcellus region, Niagara is not a liquid trading point. It does not possess the characteristics that would make it a liquid trading point. As a result, notwithstanding that the landed cost for Niagara may be lower than supply purchased at Dawn, it would not be prudent for Union to contract at Niagara for significant incremental volumes.

Moreover, in each of the major facilities applications brought by Union since 2012 Union has included extensive direct evidence, as well as independent expert analysis prepared by ICF which discusses the changing North American gas supply dynamics. The ICF reports alone have ranged from 36 to 78 pages in length. In each of these facility applications, ICF's findings have been consistent. Specifically, ICF agrees that production from the mature North American natural gas basins is in decline while production from the Marcellus and Utica shale gas formations in Pennsylvania, Ohio and West Virginia continue to exceed expectations. While mature natural gas reserves still exist in western Canada, the economics of natural gas production and transportation favour shale gas and tight gas formations which are closer to the consuming markets. Further, natural gas prices at Marcellus and Utica are expected to continue to decline relative to natural gas prices in the Gulf Coast and other North American supply centers. This in turn will generate the economic incentives necessary to develop the infrastructure needed to access this source of supply. As a result, the flow of natural gas on the Canadian and U.S. pipeline grid has, and will continue to change, as shippers shift from long haul to short haul transportation.

In EB-2012-0433 (Parkway West proceeding), ICF opined:

> *"At the same time, natural gas supplies available to Ontario from western Canada, the traditional source for most of Ontario's natural gas supply, have been declining, and are expected to continue to decline. As a result, Ontario's ability to meet additional gas demand hinges on its ability to access new sources of natural gas supply such as the Utica and Marcellus shales."* Section 4-7, p.8
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> *"The decline in gas supply from the WCSB will be offset by growth in natural gas supply from the U.S. supplies delivered into Ontario via pipeline imports from Michigan and New York. Much of this incremental natural gas supply is expected to be supplied by natural gas produced from the Utica and Marcellus shales, which are expected to comprise an increasing share of Ontario's gas supply through 2025."* Section 4-7, p.10
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> *"ICF estimates that significant new pipeline capacity from the Marcellus and Utica shale production regions will be required to meet the growth in demand."* Section 4-7, p.11
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> *"Potential new sources of gas supply, including Marcellus and Utica gas production, offer economic sources of gas in proximity to the Province."* Section 4-7, p.11
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> *"In terms of impact on Ontario, Marcellus shale is cheaper than importing from Alberta, given the market prices in different regions and the transportation costs associated with moving natural gas from the production region into Ontario."* Section 4-7, p.30

In EB-2014-0261 (Union's 2016 Dawn Parkway Expansion proceeding), Union included evidence on the Marcellus/Utica supplies at Tab 7 pp. 9-17. Specifically, Union indicated:

> *"The replacement of the first two transportation capacities listed in Table 7-3 are prompted by the significant changes in market dynamics and gas supply, as described in Exhibit A, Tab 5. The overall decline in WCSB supplies available for export to eastern markets has presented long term security of supply risk to Union North customers since those customers are currently served almost exclusively from the WCSB (Empress supply), which is transported via long haul transportation capacity on the TransCanada Mainline. The emergence of abundant supplies from the Marcellus and Utica formations allows the opportunity to provide diversity to the Union North portfolio, thereby improving long term security of supply. This is facilitated through the replacement of long haul transportation from Empress with short haul transportation originating at Dawn. As discussed earlier at Exhibit A, Tab 4, the Dawn Hub provides access to diverse supplies from multiple sources, including the Marcellus and Utica formations.*

> *The replacement of capacities from long haul transportation to short haul transportation for Union North begins in 2015, and was discussed in EB-2013-0074. The Board recognized in its decision that the movement of supplies to Dawn "is justified on the grounds of enhanced security and diversity of gas supply, and ...will enhance a competitive natural gas market in Ontario through increased liquidity at Dawn".*

The need for the 2016 Dawn Parkway Expansion project was agreed to by the parties in a Settlement Agreement and approved by the Board.

As a final matter, to the extent that there are non-application specific items parties wish to discuss, it is Union's understanding that the Board intends to schedule another Natural Gas Market Review for later this year. Non-application specific issues can be discussed in that context. Any issues discussed in the Natural Gas Market Review that result in potential changes to the utilities operations and/or gas supply plan would be implemented on a prospective basis, as the Board as done in the past.

If you have any questions regarding this response please contact me at (519) 436-5476.

Yours truly,

[original signed by]

Chris Ripley
Manager, Regulatory Applications

c.c.: Crawford Smith (Torys)
Intervenors EB-2015-0010