

October 2, 2015

BY COURIER & RESS

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
Toronto, Ontario
M4P 1E4

RE: EB-2014-0182 – Union Gas Limited (“Union”) – Burlington Oakville Project Argument-In-Chief

Dear Ms. Walli,

Please find enclosed Union’s Argument-in-Chief in the above noted proceeding. It will be filed in RESS and copies will be sent to the Board.

If you have any questions with respect to this submission please contact me at 519-436-5334.

Yours truly,

[original signed by]

Vanessa Innis
Manager, Regulatory Initiatives

Encl.

cc: Zora Crnojacki, Board staff
Mark Kitchen, Union Gas
Charles Keizer, Torys
All Intervenors (EB-2014-0182)

ONTARIO ENERGY BOARD

IN THE MATTER OF The Ontario Energy Board Act, 1998, S.O. 1998, c.15, Schedule B, and in particular, S.90.(1) thereof;

AND IN THE MATTER OF The Ontario Energy Board Act, 1998, S.O. 1998, c.15, Schedule B, and in particular, S. 36 thereof;

AND IN THE MATTER OF an Application by Union Gas Limited for an Order or Orders granting leave to construct natural gas pipelines and ancillary facilities in the Town of Milton and the Town of Oakville.

AND IN THE MATTER OF an Application by Union Gas Limited for an Order or Orders for approval of recovery of the cost consequences of all facilities associated with the development of the proposed Burlington Oakville Project;

ARGUMENT-IN-CHIEF OF UNION GAS LIMITED

1. This is Union Gas Limited's ("Union") Argument-in-Chief in EB-2014-0182.

Overview

2. Union, pursuant to Section 90(1) of the Ontario Energy Board Act, is requesting approval from the Ontario Energy Board ("the Board") for Leave to Construct approximately 12 kilometres of NPS 20 hydrocarbon (natural gas) pipeline ("Proposed Pipeline") to: (i) ensure the continued reliable and secure delivery of natural gas; and, (ii) to serve an increasing demand in the fast growing Town of Oakville ("Oakville") and the City of Burlington ("Burlington") as well as the southern portion of the Town of Milton ("Milton"). The Proposed Pipeline will extend from the Board-approved Parkway West Compressor Station in Milton to Union's existing Bronte Gate Station located east of Ninth Line and south of Dundas Street East in Oakville.
3. Oakville and Burlington are supplied by (i) deliveries from Union's pipelines connected to Union's Dawn Parkway System and (ii) through contracted transportation services on the TransCanada Mainline. Approximately 25% of the design day demand is supplied by deliveries from Union's pipelines. The remaining 75% of the design day demand is

supplied with contracted transportation services, of which approximately 40% is contracted transportation services acquired on an annual non-renewable basis. As a result, there is significant reliance on natural gas delivered through contracted transportation services. This reliance creates material risk in meeting customer's demands with respect to availability and appropriate pricing because of the non-renewable nature of contracts.

4. Furthermore, growth in the communities of Oakville and Burlington and the southern portion of Milton is forecast to increase design day demand on the Burlington Oakville System from 198 TJ/d in 2014/2015 to 276 TJ/d in 2035/2036. Contracting for incremental transportation from TransCanada or the secondary market is not feasible. Growth in Burlington Oakville System demand requires Union to add incremental capacity because design day demand will exceed the capacity to supply the Burlington Oakville System as of November 1, 2016.
5. Union proposes to meet the growth and address the security of supply needs of the Burlington Oakville System by constructing the Proposed Pipeline for a November 1, 2016 in-service date and at a cost estimated to be \$119.5 million, including interest during construction.
6. The Proposed Pipeline is the least cost alternative by \$48.7 million over the life of the Project on a Net Present Value ("NPV") basis relative to short haul commercial arrangements from Parkway on TransCanada's system. The Proposed Pipeline is also the least cost alternative by at least \$68 million on an undiscounted basis and \$5 million on a discounted basis when compared to the alternative proposed by the Ontario Greenhouse and Vegetable Growers ("OGVG") and the Canadian Manufacturers and Exporters ("CME") based on supply sourced at Niagara. (Hearing Transcript, Vol. 1, page 14-15)
7. The Proposed Pipeline provides reliable, secure supply over the long term at a lower cost than contracting for transportation services. The Proposed Pipeline and ancillary facilities ("the Project") will cost ratepayers less than the cost of transportation services to supply the Burlington Oakville System today. The Project results in net annual

savings to ratepayers of between \$2.9 million and \$28.2 million based on the annual revenue requirement associated with the Project of \$8.5 million in 2018 and the avoided transportation costs of \$11.4 million to \$37.3 million. Based on the cost incurred today to supply the Burlington Oakville System, the Project will result in net annual savings to ratepayers of \$6.5 million.

8. Because the Project meets the capital pass-through criteria as determined in Union's 2014-2018 Incentive Regulation Mechanism ("IRM") proceeding (EB-2013-0202), Union is also seeking an order from the Board pursuant to Section 36 of the Ontario Energy Board Act, for approval to recover the cost consequences of the Project from ratepayers. Union is also seeking approval for a Burlington Oakville Project Costs Deferral Account to track any variance between the costs approved in rates for the Project and the actual annual revenue requirement of the Project. Effective January 1, 2016, Union proposes to build the annual costs associated with the Project into in-franchise delivery rates and ex-franchise transportation rates.
9. Fundamentally, this proceeding is about whether Union's customers are best served through the Proposed Pipeline's capacity or the capacity acquired on a contractual basis from TransCanada. In Union's submission, the Proposed Pipeline is the best alternative. It is in the public interest and should be approved by the Board as:
 - the Proposed Pipeline provides security of supply and incremental capacity at the lowest cost to Union's customers;
 - unlike contractual alternatives which require incremental contracted volumes and corresponding costs, the Proposed Pipeline locks in capital cost-serving the community in 2016 dollars and providing declining costs over the life of the project and as volumes are added;
 - the Proposed Pipeline, when combined with the existing NPS 8 Milton Line and the NPS 12 Parkway Line, provides enough capacity to transport natural gas from the Dawn Parkway System to the NPS 20 Burlington to Oakville Line to meet the Burlington to Oakville System design day demand for over 40 years;¹

¹ Union will be required to extend existing distribution piping and/or construct new distribution piping to access new customers in the Town of Oakville, City of Burlington and the southern portion of the Town of Milton.

- the Proposed Pipeline establishes a large diameter, high capacity transmission main from which Union can efficiently grow its arterial distribution system in one of the fastest growing regions in Canada and offers a strategic location to meet these future needs;
 - the Proposed Pipeline satisfies Union's Gas Supply Planning Principles. In particular, Union and its customers will no longer be exposed to price and availability risk associated with non-renewable firm transportation services;
 - Union worked extensively with the Town of Oakville and the Region of Halton on the route and municipal staff expressed support for the revised preferred route (Exhibit A, Tab 11, page 3);
 - the window of opportunity with respect to the development and construction is available now, since given its location in a rapidly changing urban environment, the opportunity may not be available in the future if the Proposed Pipeline is postponed.
10. The balance of the argument is organized based on the Board's approved issues list. However, because of the nature of the issues and the aspects raised in the proceeding, Union has reordered the issues relative to what appears in the Board approved issues list.

Are the proposed facilities needed?

11. The Proposed Pipeline is needed to provide security of supply to Burlington and Oakville (a) in the short-term, because of the lack of renewable firm short haul transportation services; and (b) in the long-term, because of significant growth expected in Burlington, Oakville and the southern portion of Milton (Exhibit A, Tab 5).

Current System

12. The physical limits of Union's Burlington Oakville System means that approximately three-quarters of the supply to customers attached to this system is delivered under firm contracts for transportation services (Exhibit A, Tab 4, page 7).
13. One of the main pipelines in the Burlington Oakville System is the NPS 20 Oakville to Burlington Line. The NPS 20 Oakville to Burlington Line is the primary connection between Oakville and Burlington, and provides the infrastructure from which distribution pipelines branch off to serve Union's customers in this area (Exhibit A, Tab 4, pages 1-2). Natural gas is delivered to the NPS 20 Oakville to Burlington Line from two primary sources:

- 1) Union's Dawn Parkway System; and
 - 2) the TransCanada Mainline.
14. From Union's Dawn Parkway System, natural gas is supplied to the Burlington Oakville System through two connections: i) Union's Milton Gate Station; and ii) Union's Parkway Transmission Station. Union has no other infrastructure connected to the Dawn Parkway System that can supply natural gas directly to the Burlington Oakville System (Exhibit A, Tab 4, page 3).² Union therefore does not have a large diameter, high pressure pipeline system to serve the growth expected.
15. As such, Union supplies only approximately 25% of the remaining amount of the Burlington Oakville System design day demand from its Dawn Parkway System through its NPS 8 Milton Line and the NPS 12 Parkway Line. During the winter, the Burlington Oakville System is configured to flow a maximum volume of natural gas from Union's Dawn Parkway System through its Milton Gate Station and Parkway Transmission Station into the Burlington Oakville System to supply Union's customers. The NPS 8 Milton Line can supply up to 24 TJ/d of natural gas to the NPS 20 Oakville to Burlington Line. The NPS 12 Parkway Line can supply up to 30 TJ/d of natural gas to the NPS 20 Oakville to Burlington Line. Together the NPS 8 Milton Line and NPS 12 Parkway Line provide 54 TJ/d of supply to the Burlington Oakville System on a design day (Exhibit A, Tab 6, page 7).
16. Because of the physical limits of Union's Burlington Oakville System, the remaining approximately 75% of the supply for customers attached to the Burlington Oakville System is delivered via the TransCanada Mainline under firm contracts for transportation services. These contracts are used to transport natural gas from the TransCanada Mainline to supply the Burlington Oakville System through the connections at Union's Burlington Gate Station and Union's Bronte Gate Station. The TransCanada stations at these points are called Burlington and Bronte, respectively. Union's connections to the TransCanada Mainline are located within TransCanada's Central Delivery Area in a Domestic Delivery Area called the Union CDA. Both of Union's Burlington Gate Station

² The majority of Union's existing customers in the Town of Milton are located north of the Dawn Parkway System. These customers are not served off of the NPS 8 Milton Line or the NPS 12 Parkway Line.

and Bronte Gate Station are connected to TransCanada's Mainline on a section of TransCanada's pipe called the Parkway Line which connects to Union's Dawn Parkway System at Parkway (Exhibit A, Tab 4, page 5).

17. In effect, this application is about what is the best alternative to get gas from Parkway to the Burlington Oakville System – the Proposed Pipeline or one of the commercial alternatives described below (Hearing Transcript, Volume 1 page 144). In Union's submission, the least cost and best from a security of supply perspective is the Proposed Pipeline.

Security of Supply

18. Since 2012, Union has not been able to obtain firm renewable transportation capacity from TransCanada for 64 TJ/d capacity to serve the Burlington Oakville System (Exhibit A, Tab 5, page 6).
19. Union replaced this capacity (64 TJ/d) with firm non-renewable Parkway to Union CDA secondary market transportation services in Winter 2012/2013, Winter 2013/2014 and Winter 2014/2015 (Exhibit A, Tab 5, pages 6-7).
20. Union has contracted with TransCanada on a firm but non-renewable basis to meet a portion of the 2015/2016 design day requirements (Hearing Transcript, Volume 1, page 15).
21. There are few providers of available firm transportation services. Other than TransCanada, in the secondary market only one other party holds short haul firm transportation capacity with a Union CDA delivery point. As stated by Mr. Shorts on page 13 of the Technical Conference transcript, this party elected to amend its delivery point to Union Parkway Belt when TransCanada offered shippers holding firm transportation service with deliveries in the Union CDA the one-time election in accordance with the Settlement Agreement as described in Exhibit A, Tab 4. As the capacity on TransCanada is non-renewable, for winter 2016/2017 and beyond, this potentially limits Union's ability to contract for firm short haul transportation capacity to the Union CDA and exposes Union to participation in the secondary market, which

could leave the Burlington Oakville System short 65 TJ/d of supply, or approximately 30% of its design day requirements (Exhibit A, Tab 5, pages 7-8).

22. With respect to the secondary market, Union has seen an increase in costs for third party transportation services since 2011. These costs have ranged from \$5.0 million in 2011/2012 to \$15.0 million in 2014/2015. Firm secondary market short haul transportation capacity has become more expensive relative to the posted TransCanada tolls due to the limited number of counterparties, limited quantities available and the opportunities available in the secondary market for holders of this capacity (Exhibit A, Tab 5, pages 7-8) (Hearing Transcript, Volume 1, page 58, 145-146).
23. As a result, the Proposed Pipeline is needed to provide a secure firm supply to Burlington and Oakville that resolves the issue of the lack of renewable capacity and that locks in a cost which will decline over the 40 year life of the Proposed Pipeline (Technical Conference transcript, pages 6-7) (Exhibit C, pages 28 - 29).

Serving Future Growth

24. Growth is a fundamental issue for the Burlington Oakville System because operational parameters will not be met for the winter 2016/2017 and, in the longer term, because the area in question will see a significant growth in attachments. This growth cannot be physically or economically accommodated without the Proposed Pipeline.

Short Term Operating Limitations

25. The design day model of the Burlington Oakville System includes the following assumptions (Exhibit A, Tab 6, pages 5-6 and Exhibit B.LPMA.5):
 1. The system is designed to meet the peak hourly flow on the day;
 2. The design day demand is defined as the amount of general service demand plus firm contract demand served from the Burlington Oakville System;
 3. The system cannot operate above its maximum operating pressure;
 4. The system must operate above minimum delivery pressures for the customers connected to the system;

5. The system must operate above the minimum inlet pressure constraints for the regulating stations connected to the system; and
 6. The system must operate below the maximum flow capability of the regulating stations.
26. Operating conditions that do not meet the pressure and /or flow constraints as identified above mean that additional facilities (reinforcement) are required to maintain reliable natural gas service to Union's customers (Exhibit A, Tab 6, page 6).
27. The 2014/2015 design day requirement for the Burlington Oakville System is 198 TJ/d. With expected near-term growth, the 2015/2016 and 2016/2017 design day requirement to serve the Burlington Oakville System is expected to total 202 TJ/d and 205 TJ/d respectively, representing growth of 7 TJ/d over a two year period and an average annual increase of 3.5 TJ/d (Exhibit A, Tab 6, page 6). Hydraulic analysis shows that the operational requirements of the Burlington Oakville System will not be met for the winter of 2016/2017 assuming forecast growth to a design day demand of 205 TJ/d and no changes to existing facilities or the contracted firm transportation services. To avoid a shortfall, additional capacity is required by November 1, 2016 (Exhibit A, Tab 6, page 12).

Future Growth

28. To forecast future design day demand and to identify reinforcement facilities required to support forecast growth in the Burlington Oakville System, Union used growth projections supplied by the Regional Municipality of Halton for Burlington, Oakville and the southern portion of Milton. Union's growth forecast includes 20 years of customer attachments (to 2030) using the information provided by the Regional Municipality of Halton. The forecast attachments from 2031 to 2035 were projected by Union using a lower rate than the 2016-2030 period mainly due to an expectation of decreased land availability for development and continued natural gas usage efficiency. A summary of the Burlington Oakville System growth forecast can be found in Exhibit A, Tab 6, Schedule 3. With respect to the southern portion of the Town of Milton, growth is expected in the area south of Derry Road and east of James Snow Parkway which will be

served from the Burlington Oakville System. The remainder of the Town of Milton growth is expected to be served from the Milton System (Exhibit A, Tab 6, page 8).

29. Union forecasts residential customers supplied by the Burlington Oakville System to increase by approximately 50,445 attachments (26,195 Oakville, 11,675 Burlington and 12,575 Milton) between 2016 and 2035 (Exhibit A, Tab 6, Schedule 4). Over this same period, commercial customers supplied by the Burlington Oakville System are forecast to increase by approximately 2,320 attachments and industrial customers are forecast to increase by approximately 220 attachments (Exhibit A, Tab 6, pages 9-10).
30. The Burlington Oakville System growth is expected to be predominantly heat sensitive. The design day forecast demand growth for Oakville, Burlington and the southern portion of Milton from 2016 to 2030 will require an incremental 60 TJ/d of supply and a further 14 TJ/d of supply by 2035 (Exhibit A, Tab 6, page 11).³ Therefore, Union's total design day requirement for the Burlington Oakville System in 2035 is forecast to be 276 TJ/d, as shown in Table 6-1, Exhibit A, Tab 6, page 11 and reproduced below.

**Table 6-1
Burlington Oakville System Design Day Growth**

<u>Timeframe</u>	<u>Design Day Requirement (TJ/d)</u>
November 1, 2015	202
2016-2030 Forecast Growth	60
2031-2035 Forecast Growth	<u>14</u>
Total 2035 Design Day Requirements on the Burlington Oakville System	276

31. This incremental growth must be served. Union submits that the Proposed Pipeline is needed as it is the best physical and financial means to serve Burlington and Oakville's future growth.

³ Average annual design day growth of the Burlington Oakville System is 4 TJ/d from 2016 to 2030 and 2.8 TJ/d from 2031 to 2035.

Do the proposed facilities meet the Board's economic tests as outlined in the Filing Guidelines on the Economic Tests for Transmission Pipeline Applications, dated February 21, 2013, as applicable?

32. The inclusion of the words "*as applicable*" in the wording of the above issue is significant as its Union's position EBO 134 is not applicable in this circumstance. The following excerpt from the EBO 134 Filing Guidelines qualifies its applicability to pipelines that would provide transmission services to move natural gas on behalf of other shippers within Ontario.
33. *"These requirements apply to all Ontario Energy Board regulated gas utilities requesting approval to construct new transmission facilities. For the purpose of these Guidelines transmission pipelines are defined as any planned or proposed pipeline project that would provide transportation services **to move natural gas on behalf of other shippers within Ontario** (emphasis added). Distribution system expansion pipelines that are subject to the filing guidelines set in the EBO 188 would not be subject to the proposed filing requirement."* (page 1)
34. The Project will not be used to transport gas for other shippers. In addition, the Board's EBO 134 and EBO 188 criteria are used to evaluate the economics for expansion growth projects. The proposed Project is primarily the replacement of purchased services supplying an existing demand with a pipeline owned by Union. For Union's existing demand there is no incremental revenue from customers, although there are avoided gas transportation costs for sales service customers as described at Exhibit A, Tab 8.
35. The appropriate economic assessment is to compare the cost of building a pipeline against the avoided cost of purchasing the services (eg. build vs buy analysis). This the basis of the comparative cost analysis carried out by union and as discussed below. Union notes that because the NPV reflects a cost, the NPV is a negative number, which for convenience Union has expressed as a positive. As a result, for purposes of interpretation the lower the NPV the more preferred the option (Exhibit A, Tab 7, page 4).

What are the facilities and non-facilities alternatives to the proposed facilities? Have these alternatives been adequately assessed and are any preferable to the proposed facilities, in whole or in part?

36. Union has, in evidence and during the course of this proceeding, evaluated a number of physical and contractual alternatives. The preferred alternative is the Proposed Pipeline.

Physical Alternative

37. For the Proposed Pipeline, it was assumed that the incremental capacity of 222 TJ/d and associated stations would be constructed for a November 1, 2016 in-service. This will provide incremental capacity when the Burlington Oakville System demand exceeds the capacity to meet minimum operating requirements and will provide incremental capacity to eliminate the reliance on non-renewable transportation services. Constructing capacity based on longer term needs is much more efficient than increasing capacity between 2016 and 2035 in small increments and would create much less environmental disturbance (Exhibit A, Tab 7, page 7).
38. The environmentally preferred route for the Project begins at Union's Board-approved Parkway West Compressor Station, follows an existing utility corridor to Highway 407 where it then travels in road allowance and parallels existing infrastructure to the NPS 20 Oakville to Burlington Line at Union's existing Bronte Gate Station. Hydraulic analysis shows that an NPS 20 pipeline supports all of the forecast design day demand growth for the distribution customers supplied through the Burlington Oakville System. Extrapolating the 2016 to 2035 growth rates, the Proposed Pipeline provides capacity to serve over 40 years of design day demand growth attached to the Burlington Oakville System. The total capital cost of implementing the Proposed Pipeline is estimated to be \$119.5 million. The NPV to Union's ratepayers is \$102.6 million (Exhibit A, Tab 7, page 8).
39. Installing an NPS 16 pipeline along the same corridor was also reviewed. Hydraulic analysis identified that an NPS 16 pipeline did not provide enough capacity to meet the long term growth needs of the Burlington Oakville System. Much of the capacity of an NPS 16 pipeline would be utilized in 2016/2017 to address existing security of supply issues, leaving little capacity to serve growth. At the forecast growth rate, this capacity would be exhausted in approximately three to four years (Exhibit A, Tab 7, page 8).

Commercial Alternatives

40. Union evaluated a wide range of commercial alternatives to examine relative economic value in Exhibit A, Tab 7. These included both i) Short Haul Firm Transportation Capacity; and ii) Long Haul Firm Transportation Capacity. Only firm, renewable transportation or firm, long term exchange services were considered.

(i) Short Haul – Dawn

41. The commercial alternatives considered provide incremental supply to Union's NPS 20 Oakville to Burlington Line at the Burlington Gate Station and/or Bronte Gate Station through firm transportation service contracts via the TransCanada Mainline. For these alternatives, no further pipeline capacity is required on Union's existing NPS 20 Oakville to Burlington Line if incremental supply is provided at the Burlington Gate Station and/or Bronte Gate Station through the TransCanada Mainline.
42. All commercial alternatives are required to provide an additional 138 TJ/d of supply to the Burlington Oakville System on a design day by 2035. Union assumed some incremental capacity would be contracted in 2016 and additional capacity would be acquired annually during the 20 year growth period at the same rate as design day demand grows. As such, Union did not assume that all incremental transportation capacity to meet the design day demand in 2035 would be purchased in 2016 (Exhibit A, Tab 7, page 10).
43. Union's analysis of the short haul firm transportation options is summarized in Exhibit A, Tab 7, page 11, Table 7-5 and reproduced below:

Economic Comparison of Short Haul Firm Transportation Options (Millions)

<u>Short Haul Firm Transportation Options</u>	<u>NPV</u>
1. Parkway to Union ECDA from TransCanada	\$151.3
2. Kirkwall to Union ECDA from TransCanada	\$165.9

- | | |
|---|---------|
| 3. Dawn to Union ECDA from TransCanada | \$238.3 |
| 4. Dawn/Parkway to Union ECDA from Secondary Market | \$255.7 |

(ii) Long Haul – Empress

44. Firm long haul transportation from Empress to the Union ECDA was evaluated to provide 138 TJ/d of natural gas supply to the Burlington Oakville System by 2035.
45. Firm long haul transportation is the most expensive alternative, with an NPV of \$527.8 million, or over \$425 million in excess of Union’s physical alternative (Exhibit A, Tab 7, page 13).

Economic Analysis

46. As noted, the NPV reflects a cost and the NPV figures of each alternative are presented as positive figures. As such the alternative with the lowest NPV is the least cost to Union’s ratepayers. All alternatives were evaluated over the same time frame as the Proposed Pipeline. A least cost economic evaluation was conducted to assess the NPV cost of constructing the Proposed Pipeline compared to the NPV cost of purchasing commercial services. A discounted cash flow (DCF) analysis was completed to determine the NPV of each alternative. The NPV is shown on Exhibit A, Tab 9, Schedule 2.
47. The DCF analysis of the Proposed Pipeline indicates a NPV of \$102.6 million, including the cost of specific pipeline facilities and estimated operating and maintenance expenses and taxes. The net NPV cost of commercial service alternatives evaluated ranges from \$151.3 million (Parkway to Union ECDA) to \$527.8 million (Empress to Union ECDA). The DCF analysis of commercial services is based on the alternatives and related cost assumptions shown in Exhibit A, Tab 7.
48. The results of this analysis indicate that construction of the Proposed Pipeline with a NPV of \$102.6 million is the least cost alternative with a minimum NPV economic benefit of \$48.7 million compared to the next best commercial alternative available with NPV cost of \$151.3 million (Parkway to Union ECDA).

Short Haul – Niagara

49. During the proceeding, OGVG together with CME posed a further alternative with supply sourced from Niagara. Under this alternative, it was proposed that Union should meet Burlington Oakville System design day requirements by purchasing supply at Niagara and transporting it via TransCanada's Domestic Line (forming part of TransCanada's Mainline) from Niagara to the Burlington Gate Station and Bronte Gate Station located in TransCanada's Union CDA.
50. OGVG/CME have attempted to address Union's distribution reinforcement needs by re-evaluating Union's gas supply planning decisions by prescribing a gas supply arrangement specifically tailored to the Burlington Oakville system. This is not appropriate as Union has an integrated supply portfolio designed to serve all of Union South. With 400 communities served, it is not in the customers' interest to create a supply arrangement for specific communities as the benefits of a diverse portfolio of supply would be lost. (Hearing Transcript, Vol. 1. pages 94-95)
51. There are a number of fundamental problems with the OGVG/CME Proposal (Exhibit C, pages 3-4):
 - (i) TransCanada's Domestic Line has no available capacity without facility expansion and, as a result, gas must flow from Niagara to Kirkwall to Parkway to Union CDA, requiring that the delivery of gas be operationalized by Union. (TransCanada Responses to OGVG/CME questions, June 19, 2015) (Undertaking J 1.2)
 - (ii) The OGVG/CME Proposal would disconnect the Burlington Oakville System from Dawn, thus eliminating the benefits of the integrated Dawn Parkway System and the strategic Dawn Hub.
 - (iii) The OGVG/CME Proposal does not align with Union's Gas Supply Planning Principles as it:
 - (A) would move a large part of Union's upstream transportation and supply portfolio away from Dawn, the number one market hub in

the Great Lakes region, and would force Union to rely on Niagara, which is the least liquid point in Union's current supply portfolio;

(B) cannot be operationalized without using additional assets, which when those costs are incorporated, make the OGVG/CME Proposal more expensive, not less expensive, than the Proposed Pipeline; and

(C) would decrease the diversity and security of Union's upstream transportation and supply portfolio.

(iv) The OGVG/CME Proposal omits the \$8.25 million annual cost of a contract with TransCanada for 135 TJ/d of Kirkwall to the Amended Union CDA transportation capacity ("Kirkwall Contract") to serve an area adjacent, but not attached, to the Burlington Oakville System.

(v) Regardless of whether the cost of the Kirkwall Contract is included or not, the Proposed Pipeline is economic relative to the OGVG/CME alternative by as much as \$68 million on an undiscounted and \$5 million on a discounted basis with the Kirkwall Contract cost excluded and \$391 million on an undiscounted and \$195 million on a discounted basis with the Kirkwall Contract cost included. (Hearing Transcript, Vol. 1, page 14)

52. As noted, the OGVG/CME Proposal does not align with Union's Gas supply planning principles. Niagara is a trans-shipment point between pipeline systems and is not a liquid trading point. Niagara is also not expected to become a liquid trading point (Exhibit C, page 10). The OGVG/CME Proposal would not only direct supply purchases away from liquid markets, such as Dawn and Chicago, but would decrease diversity and security of supply (Exhibit C, page 8). The Dawn Hub is the number one market hub in the Great Lakes region and the second most physically traded point in North America (Exhibit C, page 12).

53. It is also counter to the trend that Union has been following elsewhere on its system to move Union South delivery obligations to Dawn. Moving the obligations to Dawn is a change which has been requested repeatedly by Union's customers. The Parkway Delivery Obligation has been the subject of numerous contentious regulatory

proceedings. In 2014 after lengthy discussions, Union and intervenors (including CME and OGVG) agreed to a process that will result in the elimination of the Parkway Delivery Obligation. The agreement was filed on June 3, 2014 and approved by the Board as part of EB-2013-0365 (Union's 2014 Rates proceeding) in a decision issued June 16, 2014 (Exhibit C, page 4).

What are the potential short-term and long-term rate impacts to customers? Are these costs and rate impacts to customers appropriate?

54. Union is seeking an order from the Board, pursuant to Section 36 of the Act, for approval of recovery from ratepayers of the cost consequences of all facilities associated with the development of the Project. Delivery rate increases associated with the Project will affect Union South in-franchise ratepayers, with small rate decreases for Union North in-franchise and ex-franchise ratepayers. There are also avoided gas transportation costs that will accrue to Union South sales service customers as a result of the Project that will offset the delivery rate increases for these customers, as described at Exhibit A, Tab 8.
55. The annual revenue requirement associated with the Project ranges from approximately \$0.1 million in 2016 to \$8.5 million in 2018. The revenue requirements represent the costs associated with the Project facilities deemed to be in service in each year from 2016 to 2018. The calculation of the annual revenue requirement from 2016 to 2018 and the underpinning assumptions are provided at Exhibit A, Tab 9, Schedule 4.
56. Union is proposing to allocate the costs associated with the Project to Union South in-franchise rate classes in proportion to Union South in-franchise design day demands. This cost allocation methodology is appropriate for the costs associated with the Proposed Pipeline as it recognizes that the facilities are required to meet design day demands in the Burlington, Oakville and the southern Milton areas. This cost allocation methodology is also consistent with the cost allocation for other transmission lines used to meet Union South in-franchise design day demands (Exhibit A, Tab 9, page 7).
57. In comparison to 2014 Board-approved rates per EB-2013-0365, the delivery bill impact for the average Rate M1 residential customer in Union South consuming 2,200 m³ per year is an increase of approximately \$2.43 per year. For the average Rate 01 residential

customer in Union North consuming 2,200 m³ per year, the bill impact is a decrease of approximately \$2.27 per year. Rate M1 and Rate 01 delivery bill impacts are provided at Exhibit A, Tab 9, Schedule 6.

58. For ex-franchise customers taking M12 Dawn-Parkway transportation service, the Project costs are expected to decrease the M12 rate by approximately \$0.001/GJ/d; from \$0.080/GJ/d to \$0.079/GJ/d. Rate M12 demand charge impacts are provided at Exhibit A, Tab 9, Schedule 7.
59. As described in Exhibit A, Tab 8, Union is projecting avoided gas transportation costs for Union South sales service customers as a result of the Project. In 2018, Union anticipates the avoided gas transportation costs for Union South sales service customers will be a minimum of \$11.4 million.
60. Overall, based on the annual revenue requirement associated with the Project of \$8.5 million in 2018 and the avoided gas transportation costs of at least \$11.4 million, the Project results in net savings to ratepayers of approximately \$2.9 million.
61. To calculate final bill impacts Union included the largest annual revenue requirement for the Project of \$8.5 million and the minimum anticipated avoided gas transportation costs of \$11.4 million.
62. For the average Rate M1 sales service residential customer in Union South consuming 2,200 m³ per year, the bill impact is a decrease of approximately \$6.82 per year. For the average Rate M1 direct purchase customer the bill impact is an increase of approximately \$2.43 per year. For the average Rate 01 residential customer (sales service or direct purchase) in Union North consuming 2,200 m³ per year, the bill impact is a decrease of approximately \$2.27 per year (Exhibit A, Tab 9, Schedule 8).
63. Union submits that the cost and rate impacts are appropriate.

Does the project meet the capital pass-through mechanism criteria for pre- approval to recover the cost consequences of the proposed facilities?

64. As described at Exhibit A, Tab 9 Union is seeking approval of the recovery of the costs consequences of the Project as part of this proceeding because it meets the capital pass-through criteria as determined from Union’s 2014-2018 Incentive Regulation Mechanism (“IRM”) proceeding (EB-2013-0202). Given the magnitude of the Project, Union is not able to proceed with the development of the Project without reasonable certainty of cost recovery.
65. The intent of the capital pass-through mechanism (“CPM”) in Union’s Board Approved 2014-2018 IRM is to adjust rates during the IRM term to reflect the associated impacts of significant capital investments made throughout the IRM term. Such investments are considered “not-business-as-usual”. “Not-business-as-usual” refers to capital expenditures that are significant and cannot be managed within Union’s Board-approved capital budget.
66. The key components of the CPM are:
- Any qualifying project must exceed two financial thresholds, related to both revenue shortfall and capital cost;
 - Any qualifying project will be subject to a full regulatory review, either in a Leave-to-Construct proceeding or in a rates proceeding, but prior to being included in rates; and
 - Any qualifying project will be subject to both annual revenue requirement true-ups during the IRM term and an end-of-term qualification assessment.
67. A total of eight criteria were established during the EB-2013-0202 proceeding, which, if met by a major capital project, will result in inclusion in rates during the IRM term. The Project meets each of the criteria as follows:

Capital Pass-through Mechanism Criteria

Criterion	Applicability
i) A minimum increase, or a minimum decrease, of \$5 million in net delivery revenue requirement for a single new project (the “Rate Impact	The net delivery revenue requirement associated with the Project ranges from \$0.1 million in 2016 to \$8.5 million in 2018, as provided at Exhibit A, Tab 9, Schedule 4, in the Cost Allocation and

	Threshold”).	Rate Design section. The net delivery revenue requirement was calculated using the parameters outlined in the EB-2013-0202 Settlement Agreement.
ii)	The capital cost of the project must exceed \$50 million.	The capital cost of the Project is \$119.5 million.
iii)	The project is outside the base rates on which the IRM is set.	The Project was not included in 2013 base rates.
iv)	The project must be needed to serve customers and/or to maintain system safety, reliability or integrity, and cannot reasonably be delayed, and is demonstrated to be the most cost effective manner of achieving the project's objective relative to the reasonably available alternatives.	Please see Exhibit A, Tabs 5 and 6 with respect to the need for the Project. Please see Exhibit A, Tab 7 regarding the alternatives considered.
v)	The project will be identified to stakeholders and the Board as soon as possible, including in that year's IRM stakeholder review session where practical.	The Project was identified during the course of the IRM negotiations, through the Settlement Agreement reached with TransCanada and during Union's April 2013 Stakeholder meeting.
vi)	The project will be subject to a full regulatory review; for any project that requires leave-to-construct approval of the Board, the full regulatory review in which the applicant must demonstrate need, safety or reliability purposes, and economic viability prior to inclusion in rates will be conducted in that proceeding.	The Project is subject to leave-to-construct approval, and there will be a full regulatory review within the present case.
vii)	Union will allocate the net revenue requirement using EB-2011-0210 Board-approved cost allocation methodologies. Any party, including Union, may take any position with respect to the proposed allocation for any particular capital project during review of the project, or its rate impacts, by the Board.	Union has allocated the net revenue requirement using EB-2011-0210 Board-approved cost allocation methodologies.
viii)	The project will include a deferral account request to capture any differences between the forecast annual net delivery revenue requirement and the actual net delivery revenue requirement for each year of the IRM for which the project is included in rates.	The request for a deferral account is included in Exhibit A, Tab 9.

Do the Facilities Address the Board's Environmental Guidelines for the Location, Construction and Operation of Hydrocarbon Pipelines and Facilities in Ontario?

68. The Board's Guidelines for Hydrocarbon Pipelines is addressed at Exhibit A, Tab 11 and Exhibit A, Tab 11, Schedule 1 of Union's pre-filed evidence. In Union's submission, subject to the implementation of the recommendations in the Environmental Impact Assessment Report ("ER"), ongoing communication and consultation, and adherence to permit, regulatory and legislative requirements, any potential adverse residual environmental and socio-economic effects of the Proposed Pipeline are not anticipated to be significant (Exhibit A, Tab 11, page 3).

69. The original ER for the Proposed Pipeline was initiated in January 2013 by Stantec Consulting Limited. Two public information sessions were held during the preparation of the original ER. The original ER was completed in April 2014.
70. Following the completion of the ER, a copy was provided to the Ontario Pipeline Coordination Committee (“OPCC”), the Region of Halton, Town of Milton, Town of Oakville, Conservation Halton as well as landowners, First Nations and the Métis Nation of Ontario for review and comment.
71. Feedback from this review identified potential issues and concerns with the portion of the pipeline route that used Trafalgar Road. As a result of this feedback, the preferred route along Trafalgar Road was further assessed by Stantec and Union Gas. It was determined that the study area for the ER could be expanded and additional routes could be considered.
72. After reviewing the existing routes, along with the new routes developed in the expanded study area, as detailed at Exhibit A, Tab 11, page 2, it was determined that a pipeline route with an end-point at the existing Bronte Gate Station was environmentally preferred over an end-point on Trafalgar Road.
73. As a result of this change, another public information session was held on November 13, 2014 at which time the revised preliminary preferred route was identified. Based on the positive support received specific to the revised route, a revised ER was prepared in December 2014 (Exhibit A, Tab 11, Schedule 1). This ER was again circulated to the OPCC and the necessary parties for review and comment.
74. Similar to the original ER, the revised ER concludes that with the implementation of the recommendations in the ER, on-going communication and consultation, and adherence to permit, regulatory and legislative requirements, any potential adverse residual environmental and socio-economic effects of the Project are not anticipated to be significant (Exhibit A, Tab 11, page 3).
75. Union will implement a comprehensive Traffic Management Plan for all roads affected by construction. The plan will include, at a minimum, the posting of signs to warn

oncoming traffic of construction activity; overall traffic control; reduce on-road disturbances and lane closures; and, the need to install safety fencing and barricades (Exhibit A, Tab 11, pages 5-6 and Section 4.4 of Exhibit A, Tab 11, Schedule 1).

76. Union's standard environmental inspection program will also be used to ensure that the recommendations in the ER are followed and that all activities comply with whatever Conditions of Approval are mandated by the Board.

Are there any outstanding landowner matters for the proposed facilities with respect to routing and construction matters? For greater clarity, landowners include parties from whom permits, crossing agreements and other approvals are required. Is the form of easement agreement offered by Union or that will be offered by Union to each owner of land affected by the approved route or location appropriate?

77. The land rights necessary for the construction of the Proposed Pipeline will be a combination of permanent and temporary easement land rights acquired from individual landowners and government ministries as well as land rights under Union's Franchise Agreements with Oakville, Milton and the Regional Municipality of Halton.
78. The majority of lands required for the Proposed Pipeline is land administered by the Ontario Infrastructure and Lands Corporation ("Infrastructure Ontario"), a crown entity. Union has had several discussions with Infrastructure Ontario regarding both permanent easements and temporary land use. Infrastructure Ontario has not objected to granting Union these land rights. As stated at Exhibit B.Staff.6-1, negotiations are ongoing with Infrastructure Ontario in order to finalize the terms and conditions specific to these land rights.
79. As stated at Exhibit A, Tab 12, page 2, Union has had several discussions with private landowners. In Union's submission, these discussions have not identified any strong objection to the Project and, it is Union's intention to acquire these land rights prior to the construction of the Proposed Pipeline. Union's response at Exhibit B.Staff.6-1 further supports this claim. Union notes that negotiations are "ongoing with all the private landowners". No landowners have identified any significant concerns with the Project.

80. To construct the Proposed Pipeline, Union also requires crossing permits or agreements with Provincial Ministries, Oakville, Milton, the Regional Municipality of Halton and, the City of Mississauga along the route. These permits and agreements will be in place prior to construction.
81. Union's form of easement can be found at Exhibit A, Tab 12, Schedule 4. The easement covers the installation, operation and maintenance of the pipeline. The easement is in a form previously provided to the Board and used by Union in the past on similar pipeline projects.
82. For the Proposed Pipeline, the temporary land use agreements are in the form previously provided to the Board and used by Union in the past on similar pipeline projects. These agreements are usually for a period of two years, beginning in the year of construction. This allows Union an opportunity to return in the year following construction to perform further clean-up work as required.

Are the proposed facilities designed in accordance with current technical and safety requirements?

83. Exhibit A, Tab 10 of Union's evidence details the design, installation and testing of the Proposed Pipeline. All design, installation and testing of the pipeline will be in accordance with the requirements of Ontario Regulation 210/01, Oil and Gas Pipeline Systems under the *Technical Standards and Safety Act 2000*. This regulation governs the installation of pipelines in the Province of Ontario. The design also meets or exceeds the requirements of the Canadian Standards Association ("CSA") Z662-11 Standard in accordance with the Code Adoption document under the Ontario Regulations.
84. There were no interrogatories on this issue.

Has there been adequate consultation with other potentially affected parties?

85. As stated at Exhibit A, Tab 13, Union has a longstanding practice of consulting with Métis and First Nations, and has programs in place whereby Union works with Métis and First Nations to ensure that they are aware of Union's projects and have the opportunity to participate in both the planning and construction phases of the project.

86. Union has an extensive database and knowledge of Métis and First Nations organizations in Ontario and consults with the Tribal organizations and the databases of the Ministry of Natural Resources, Ministry of Aboriginal Affairs and Aboriginal Affairs and Northern Development Canada to ensure consultation is carried out with the most appropriate groups.
87. Union has signed a General Relationship Agreement with the Métis Nation of Ontario which describes Union's commitments to the Métis when planning and constructing pipeline projects.
88. For the Proposed Pipeline, Union has conducted and will conduct consultation or engagement meetings with the following, Métis and First Nations in relation to the project:
- Six Nations of the Grand First Nation Elected Council
 - Mississaugas of the New Credit First Nation
 - Haudenosaunee Confederacy Chiefs represented by the Haudenosaunee Development Institute ("HDI")
 - Métis Nation of Ontario
89. During construction, Union will have inspectors in the field who are available as a primary contact to discuss and review any issues that may arise. When Union completes the necessary archaeological assessments for the Proposed Pipeline, it will consult with and make that assessment available to any Métis or First Nations that requests a copy. Union will undertake construction in accordance with any mitigation measures recommended in the assessment.
90. There were limited interrogatories on this issue. Union's response to Exhibit B.Staff.9-1 reiterates its commitment to "consult with the First Nations and the Métis Nation throughout the completion of the Project to ensure any concerns raised are dealt with in a timely manner."
91. Union is not aware of any outstanding issues raised by Métis or First Nations in relation to the Project.

If the Board approves the proposed facilities, what conditions, if any, are appropriate?

92. As stated at Exhibit B.Staff.11-1, Union accepts the Conditions of Approval as proposed by Board staff.

Conclusion

93. The Proposed Pipeline satisfies the need for security of supply in one of the Province's most rapidly growing populated areas and it does so in a manner that eliminates uncertainty of deliverability, locks in costs that decline over time and provides savings to rate payers – all with the benefit of securing supply from one of the most liquid trading hubs in North America.

All of which is respectfully submitted, this 2nd day of October, 2015

UNION GAS LIMITED
By its counsel Torys LLP

[original signed by]

Charles Keizer