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October 16, 2015

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli,

RE: EB-2014-0182 - Final Argument of London Property Management Association

Please find attached the final argument of the London Property Management Association in the above noted application.

Sincerely,

Randy Aiken

Randy Aiken
Aiken & Associates

Encl.

cc: Vanessa Innis, Union Gas Limited (e-mail)

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.

FINAL ARGUMENT
OF
LONDON PROPERTY MANAGEMENT ASSOCIATION

A. INTRODUCTION

These are the submissions of the London Property Management Association ("LPMA") related to the Union Gas ("Union") application for an Order or Orders grating leave to construct natural gas pipelines and ancillary facilities in the Town of Milton and the Town of Oakville and for approval of the recovery of the cost consequences of all the facilities associated with the development of the proposed Burlington Oakville project.

LPMA has members that are served under rates M1, M2 and M4 in Union South. The submissions that follow are based on the final issues list as approved by the Ontario Energy Board ("Board") in the Decision on Issues List dated March 10, 2015.

B. SUBMISSIONS

LPMA has reviewed the October 2, 2014 Argument-in-Chief of Union Gas and generally supports the Burlington Oakville project as proposed. LPMA does have a number of issues and concerns with the potential impacts of the no build proposal put forward on behalf of the Ontario Greenhouse and Vegetable Growers ("OGVG") and the Canadian Manufacturers & Exporters ("CME").

Should the Board adopt the OGVG/CME proposal, LPMA submits that the allocation of the associated transportation costs needs to changed from the status quo. This is noted under Issue 3 below.

Issue 1. Are the proposed facilities needed?

LPMA submits that the evidence in the proceeding is clear that there is a need to address the security of supply for the Burlington, Oakville and southern portion of Milton. In addition, there is a need to plan for long term growth in the area.

No party has taken issue with this need. The only issue is whether Union's build proposal is appropriate as compared to the other alternatives that may be available. This is dealt with under Issue 4 below.

Issue 2. 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?

LPMA agrees with and supports Union's submissions with respect to this issue as set out at paragraphs 32 through 35 of the October 2, 2015 Argument-in-Chief.

Issue 33. What are the potential rate impacts to customers? Are the rate impacts appropriate?

a) Union's Proposal

LPMA has reviewed the allocation of the costs for the proposed project to the various rate classes and submits that the Board should approve the allocations as proposed. Union has followed the 2013 Board approved cost allocation methodology (Exhibit A, Tab 9) and has classified the proposed transmission line as Other Transmission. This treatment is the same as the treatment of other transmission lines that provide a similar function, such as the Owen Sound, London and Sarnia industrial lines. LPMA submits that this treatment is appropriate and consistent with the classification of similar lines.

Union proposes to allocate the Other Transmission costs to Union South in-franchise rate classes in proportion to the Union South in-franchise design day demands. LPMA supports this allocation because it is consistent with the current Board approved methodology for Other Transmission costs as approved by the Board in EB-2011-0210.

LPMA also submits that the re-allocation of costs of adding the rate base and operation expenses associated with the project as Other Transmission costs is appropriate and follows the current Board approved methodology, as is described on page 8 of Exhibit A, Tab 9.

The impact on Rate M1 customers is an increase in delivery charges of $2.43 per year and a reduction in supply charges of $9.24. As a result, the net impact on a direct purchase M1 customer is an increase of $2.43, while for a system gas M customer, there is a reduction of $6.82 in annual costs. These figures are based on the largest annual revenue requirement associated with the project of about $8.5 million and are shown in Exhibit A, Tab 9, Schedule 8.

As noted earlier in this submission, LPMA members are served under Rates M1, M2 and M4. The impact on customers in Rates M2 and M4 are shown in the interrogatory response at Exhibit B.LPMA.12.

M2 delivery charges increase by $99.95 per year for all customers, while supply charges fall by $306.71 for system gas customers. Similarly, M4 deliver charges rise by $1,391.83 for all customers, while supply charges decline by $3,676.36 for system supply customers under Rate M4.

LPMA submits that the cost and rate impacts associated with Union's project are appropriate.

<u>b) No-Build Option</u>

Some parties may submit that the no-build option is more economical. LPMA deals with this under Issue 4 below. The submissions in this section deal with the rate impacts of the no-build option.

If the project is not built, the delivery rate impacts noted above would disappear and there would be no impact on the delivery charges. However, the no build option would require continued and potential additional gas transportation costs to be incurred.

It is the recovery of these costs that is of concern to LPMA under this scenario, which would be identical to the current situation, with the exception of the quantum of the gas transportation costs that would be incurred.

In the response found in Exhibit B.LPMA.1, Union has indicated that the cost of transportation services to supply the Burlington Oakville system are recovered through the gas supply charge and not through distribution (delivery) rates. As the interrogatory goes on to state, the costs for the gas transportation contracts are currently recovered from Union South sales service customers and both Union North sales service and bundled direct customers. The costs are not, however, recovered from Union South direct purchase customers.

LPMA submits that the current methodology should not be continued if the Board were to determine that the no build option is preferable to Union's build option or if the Board were to defer its decision.

LPMA submits that any gas transportation costs paid to a third party to provide movement of gas to specific or targeted areas on Union's distribution system should be considered a distribution cost and not a system gas cost. This is because the gas transportation contracts are being used in place of Union's distribution/transmission assets to provide security of supply and design day demand.

The current situation in which direct purchase customers in Union South do not pay for any of these costs to ensure security of supply and the ability to meet design day demand on the Burlington Oakville system is not appropriate and is different from the costs incurred to provide the same security of supply and ability to meet design day demands on other systems, such as Owen Sound system, the London system and the Sarnia industrial system. All of the costs incurred for security of supply and to meet design day demand on those systems are recovered through distribution (delivery) charges from all customers in Union South, including direct purchase customers. The same situation should apply to the Burlington Oakville system.

Should the Board opt for the no build solution, LPMA submits that the only costs that should be allocated to system gas customers in Union South is the actual commodity cost of the gas, landed in Ontario. The Board should direct all additional gas transportation costs associated with the contracts to get the gas to the Burlington Oakville system be recovered through distribution (delivery) rates. LPMA submits that these additional transportation costs are in lieu of distribution facilities that would achieve the same result and ensures that all customers pay for the security of supply and ability to meet design day demands. To impose this cost on system gas customers only does not reflect cost causation.

Issue 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?

LPMA submits that the facility and non-facility alternatives to Union's proposed project have been adequately assessed and none are preferable to Union's proposal. There are a number of reasons for this conclusion.

a) Cost Comparison of the Alternatives

Much of the hearing was dedicated to trying to determine the cost associated with the no build option described in the OGVG/CME evidence. There was general and continued disagreement on what services Union would require from TCPL in order to utilize existing assets and eliminate the need for, at least postpone the need for, the Union project. There was even disagreement among the parties as to whether or not some of the services that TCPL might be able to provide would be charged for by TCPL, or provided for free.

Given that TCPL did not provide a witness panel to detail what services it could provide to Union and what costs Union would incur for the no build option supported by the OGVG/CME evidence, LPMA submits that the Board should give low weight to the comments of both the Union witnesses and the OGVG/CME witnesses.

However, there is evidence on the record of what the current costs that are incurred by Union from TCPL and the secondary market. The cost of these commercial arrangements have risen from $5 million in 2011 to $15.0 million in 2014/2015 (Exhibit A, Tab 5, page 8) and were more than $11 million per year in 2013 and 2014 (Exhibit B.LPMA.10).

The above figures are based on the current capacity contracted for. LPMA submits that it is reasonable to expect the costs for additional capacity would not be less than the costs for existing capacity.

Even at the 2013 and 2014 level of just over $11 million per year, the costs are higher than the highest year revenue requirement for the Union project of just under $9 million. In addition the risk is that the TCPL costs would continue to rise over the years reflecting the cost of additional capacity, while the costs of the Union project would tend to decline over time as the rate base is depreciated.

From a cost perspective, LPMA submits that the Union proposal is better from a ratepayer perspective.

b) Risks of the No Build Option

i) Third Party Transportation

LPMA has reviewed the security of supply section of the October 2, 2015 Argument-in-Chief of Union (pages 6-7) and agrees that the lack of renewable capacity is not a risk that Union should incur as it has the potential to disrupt gas service to a large number of customers.

It could also result in Union being held hostage to purchase transportation to the Burlington Oakville system. What other option would it have if it does not have the ability to move the gas required on its own lines? LPMA submits that this is an unacceptable risk to ratepayers.

ii) Niagara Gas Purchases

LPMA also has concerns over the price volatility of gas supply at Niagara. According to the OGVG/CME witness, Ms. Cheung, her proposal does not work if Union cannot get gas to or at Niagara (Tr. Vol. 2, pages 25-26 & page 56). Ms. Cheung also indicated that she was not an expert in gas supply issues.

On the other hand, Union has provided evidence of the lack of liquidity of Niagara. This may or may not change in the future and there is no evidence whether more or less gas would flow through Niagara in the future. There is no guarantee that Niagara gas would trade at a discount or a premium to gas at Dawn. What a lack of liquidity does mean, however, is that the volatility of gas prices at Niagara is likely to be higher than at a liquid hub such as Dawn.

LPMA submits that a problem with the OGVG/CME proposal is that gas is required to be purchased at or upstream of Niagara on a long term basis. LPMA believes that purchasing gas on a long term contract basis is not appropriate, given the changing dynamics of gas supply and production. Locking in for a long term at Niagara could result in higher gas costs in the future. In any event, LPMA submits that there is no evidence in this proceeding of any producer or shipper willing to lock in prices for the long term.

This leave short term gas purchases, which is the normal process for Union as it purchases gas on a monthly, seasonal and annual basis. This could expose Union to significant fluctuations in gas costs at Niagara. Without this gas at Niagara, the OGVG/CME proposal does not work. To be more specific it would expose Union South system gas customers to these cost variations. In other words, Union South system gas customers would shoulder the risk of having to purchase gas commodity at Niagara. LPMA submits this is not appropriate.

iii) Future Costs

Union's proposal has limited scope for increases in costs to be paid for by ratepayers. The revenue requirement associated with the project would be impacted, to the greatest extent, by changes in the cost of capital, changes in tax rates or changes in depreciation rates (changes timing of recovery only). However the impact of these changes is limited in scope and would be partially offset by the continued reduction in rate base that underpins the revenue requirement. This provides stability in the costs to be recovered from ratepayers.

On the other hand, the transportation costs paid to third parties and the different in the spread between Niagara and Dawn gas prices are more likely to be either higher in the future than they are now, or more volatile. This could result in higher and/or move volatile costs to be recovered from ratepayers.

c) Summary - Risk Too High

In summary, LPMA submits that while the OGVG/CME no build proposal could work from a physical standpoint, at least for a number of years, the potential cost consequences and risks to ratepayers are too high compared to the build option put forward by Union.

Issue 5. Do the facilities address the OEB Environmental Guidelines for Hydrocarbon Pipelines as applicable?

LPMA makes no submissions on this issue.

Issue 6. 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.

LPMA makes no submission on this issue.

Issue 7. 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?

LPMA makes no submissions on this issue.

Issue 8. Are the proposed facilities designed in accordance with current technical and safety requirements?

Union's evidence in Exhibit A, Tab 10 provided details related to the design, installation and testing of the pipeline and in all cases this has been done in accordance with the current technical and safety requirements. There were no issues raised related to this through interrogatories or cross-examination. LPMA submits that the proposed facilities are designed in accordance with current technical and safety requirements.

Issue 9. Has there been adequate consultation with other potentially affected parties?

LPMA submits that Union has adequately consulted with other parties that could be potentially affected. There does not appear to be any outstanding concerns with respect to this issue and Union has indicated that it would consult with the Métis and First Nations in relation to the project (Exhibit B.Staff.9-1).

Issue 10. Does the project meet the capital pass-through mechanism criteria for pre-approval to recover the cost consequences of the proposed facilities?

LPMA submits that the project meets the capital pass-through mechanism criteria for pre-approval to recover the cost consequences of the proposed facilities. LPMA submits that the criteria, which are summarized on pages 18-19 of Union's October 2, 2015 Argument-in-Chief, have all been met.

However, should the Board determine that some non-build option is preferred to Union's build proposal, then the issue of the recovery of the costs becomes problematic. Elsewhere in this submission, LPMA has argued that if a non-build option is chosen over Union's build option, then a portion of the transportation costs need to be treated as delivery costs and not commodity costs. If the Board agrees with this, it is not clear to LPMA how these additional delivery related costs would be included in distribution costs since the cost of the transportation contracts are not capital costs and would not qualify under the criteria set out for the capital pass-through mechanism.

Issue 11. If the Board approves the proposed facilities, what conditions, if any, are appropriate?

Based on the response provided in Exhibit B.Staff.11-1, Union has accepted the Conditions of Approval as proposed by Board Staff in that interrogatory. LPMA submits that these conditions are appropriate and should be accepted by the Board.

C. COSTS

LPMA requests that it be awarded 100% of its reasonably incurred costs associated with its participation in this proceeding.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

October 16, 2015

Randy Aiken

Consultant to London Property Management Association