uniongas
A Spectra Energy Company

October 30, 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 Reply Argument

Dear Ms. Walli,

Please find enclosed Union's Reply Argument 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;

REPLY SUBMISSIONS OF UNION GAS LIMITED

1. Union Gas Limited ("Union"), pursuant to Section 90(1) of the Ontario Energy Board Act (the "OEB 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"). These are the reply submissions of Union in this proceeding.

2. The Proposed Pipeline is in the public interest and should be approved by the Board. Nothing has been raised in the submissions of the intervenors or Board Staff that refutes the evidence that:

- the Proposed Pipeline provides security of supply and incremental capacity at the least 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; and

- 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.

3. In fact, the alternative proposed by the Ontario Greenhouse and Vegetable Growers (“OGVG”) and Canadian Manufacturers and Exporters (“CME”), that has dominated the focus of the proceeding, is not viable according to evidence confirmed by TransCanada Pipelines Limited (“TransCanada”) and based on the testimony of the consultant to OGVG and CME, Ms. Aggie Cheung. Simply, the capacity is not available from Niagara to Union CDA via TransCanada’s Domestic Line, which is the path underpinning this alternative. Because of this fact and because the alternative requires diversions of gas that are not firm, the operationalized version of this alternative as set out by Union in its reply evidence (Exhibit C) was contemplated. However, both this operationalized version and other contractual alternatives (as set out in Union’s pre-filed evidence), are uneconomic relative to the Proposed Pipeline.

4. 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 OGVG and the CME based on supply sourced at Niagara. (Transcript Vol. 1, page 14-15)

Position of the Parties

5. Board Staff, CME, OGVG, London Property Management Association (“LPMA”), Vulnerable Energy Consumers Coalition (“VECC”), Association of Power Producers of Ontario (“APPrO”) and North Oakville Community Builders Inc. (“NOCBI”), either support or do not oppose the Proposed Pipeline. School Energy Coalition (“SEC”) could not conclude whether to support the proposed pipeline or the alternative proposal of CME and OGVG. Only the Federation of Rental-housing Providers of Ontario (“FRPO”) and the Building Owners and Managers Association (“BOMA”) oppose the approval of the Proposed Pipeline.

6. Much of this proceeding has focused on whether the Proposed Pipeline or the alternative put forward by CME and OGVG through the evidence of Ms. Cheung, consultant to CME and OGVG (the "OGVG Alternative") is the best least cost alternative to serve Burlington and Oakville. As a co-sponsor of the OGVG Alternative, it is significant to note CME's submission that "CME has concluded that Union's customers are best served by Union's Proposed Pipeline" and that "Union's Proposed Pipeline is in the public interest and should be approved." (CME, p.1-2)

7. With respect to OGVG, a co-sponsor of the OGVG Alternative, it is particularly noteworthy that Ms. Cheung as consultant to CME and OGVG had no contact with OGVG during the course of the preparation of her evidence or testimony (Transcript Vol. 2, p.58). Ms. Cheung only had contact with Mr. Dwayne Quinn. Mr. Quinn, originally consultant to only OGVG, filed late intervention on behalf of FRPO after the filing of Ms. Cheung's evidence on behalf of CME and OGVG. FRPO was granted late intervention status and accepted the record, including the OGVG evidence. Mr. Quinn only put in an appearance at the proceeding on behalf of FRPO and not OGVG and only filed submissions on behalf of FRPO. OGVG did not appear at the hearing and made no submissions. As such, OGVG appears to not oppose the Proposed Pipeline. FRPO, through Mr. Quinn, is the only party that continues to rely on the evidence of Ms. Cheung and the OGVG Alternative.

The Need and Regulatory Considerations

8. The need of the Burlington Oakville System to obtain secure capacity that is firm and reliable to meet today's need and future growth is acknowledged by the parties and Board Staff.

9. The question before the Board is the means by which that need is satisfied. Are Union's customers best served through the Proposed Pipeline's capacity or the capacity acquired on a contractual basis from TransCanada? Union submits the conclusion is the former not the latter.

10. The Proposed Pipeline satisfies that need and does so in the public interest. In reaching this conclusion, one must be mindful that this proceeding is about the service of

significant and growing urban communities. Often in pursuit of FRPO's desire, led by Mr. Quinn and endorsed by Ms. Cheung, to focus the hearing on gas supply from Niagara, the testimony of Ms. Cheung and the submissions of Mr Quinn have taken the OGVG Alternative to a level of abstraction that has focused on the manipulation of gas supply and pipeline capacity like pieces on a game board. Rather, the appropriate approach is the one espoused by Union which is a comparative economic analysis that takes into account the realities that arise from the physical limitations of Union's and TransCanada's systems, the differences in their mandates with respect to an obligation to serve, the requirement to maximize revenue by avoiding cross-subsidization, the need to purchase gas for Union South as a whole and not for a single community and the fundamental differences in gas supply at Dawn versus Niagara.

11. The assumption and basis of Union's comparative economic analysis has been clearly set out in its evidence. It appropriately includes both project costs and approved tariffs set by the OEB and NEB. What is not appropriate to consider is the assertion by FRPO and SEC that the project is of less merit because the capital costs will form part of rate base and be subject to a return on investment (FRPO, p.3) (SEC, p. 1-2). Because a return is obtained does not mean that a utility should be presumed to be acting contrary to the public interest. A similar argument could be made in respect of the intervenors and their desire to avoid a payment of a return. The comparative economic analysis provides a clear and objective basis to assess the Proposed Pipeline and all information has been disclosed.

12. What is even further afield is FRPO's proposed collateral consideration of broader system planning and gas supply in Union's applications for the approval of the NEXUS contract (EB-2015-0166) (which relates to Union's gas supply portfolio as a whole) or the 2017 expansion to the Dawn Parkway System (EB-2015-0200) (which is to accommodate the requests of ex-franchise customers). (FRPO, p.16-19) These are unrelated to the need and proposal for the Burlington Oakville System. The assertion of FRPO in this regard is borne by an agenda that has no basis and is not relevant to the Board's consideration.

Viability of the OGVG Alternative

13. In opposing the Proposed Pipeline, FRPO has glossed over and wrongly presented what TransCanada capacity is or is not available to serve the Burlington Oakville System.

14. This is of fundamental significance to the validity of FRPO's submissions since the OGVG Alternative on which FRPO relies is premised on the assumption that the capacity is available on TransCanada's Domestic Line to permit a contract from Niagara to the Union CDA. According to the evidence of Ms. Cheung, if there is no capacity along this path, then the OGVG Alternative is not viable. (Transcript Vol. 2, p. 40, line 19 - 20)

15. The evidence in the proceeding confirms that no capacity is available along that path and that the OGVG Alternative is not a viable alternative to the Proposed Pipeline. As a result, the OGVG Alternative should be rejected by the Board.

16. As stated in Union's June 19, 2015 correspondence to the Board (filed in this proceeding) and confirmed by TransCanada in writing:

> "The Settlement Agreement recognized that 200 TJ/d of transportation capacity would be offered to the market on the path from Niagara to Enbridge Parkway CDA using TransCanada's Domestic Line. Enbridge successfully bid on this capacity in the TransCanada's 2015 new capacity open season. The facilities required to provide this service were the subject of the recently approved Greater Golden Horseshoe Project and included modifications to facilities between Niagara/Chippawa and Parkway on TransCanada's Domestic Line. **No further capacity is available on this path from TransCanada using the Domestic Line without facility expansion. Any additional capacity required on this path would flow from Niagara to Kirkwall to Parkway to Union ECDA.**"
> *(emphasis added)*

17. Furthermore, to clarify the capacity available on the TransCanada Domestic Line and the Niagara Export Line in respect of particular mainline valves (MLV 207 and 209), Union provided the following undertaking response, Exhibit J1.2, which TransCanada confirmed as accurate:

> "TransCanada's MLV 209 (schematic is included at page 21 of Exhibit K1.2 Corrected) is on a cross-over connection that regulates pressure and controls flow between the higher pressure Niagara Export Line and the lower pressure Domestic Line (Hamilton Line). MLV 209 is not on the Domestic Line. MLV

209 has a physical capacity of 287 TJ/d from the Niagara Export Line through the station regulators to the Domestic Line. **However, the physical capacity of TransCanada's Domestic Line between where the cross-over pipe meets the Domestic Line (near MLV 209) and MLV 207 on the Domestic Line (which is near the Burlington Gate Station) is 200 TJ/d.** The remaining 87 TJ/d flows in the opposite direction on the Domestic Line, from the point where the cross-over pipe connects to the Domestic Line towards Niagara, feeding markets in the Enbridge CDA on the Niagara Peninsula." (*emphasis added)*

18. This further confirms that the capacity of the Domestic Line is 200TJ/d. As a result, the record is clear that there is not sufficient capacity on the Niagara to Union CDA path to permit the OGVG Alternative. Based upon Ms. Cheung's testimony, the OGVG Alternative is not viable.

19. Notwithstanding this evidence, FRPO wrongly states the conclusions of the June 19, 2015 correspondence. FRPO incorrectly asserts that the capacity is available on the Domestic Line because the June 19, 2015 letter confirms (which it does not) that no new facilities are required on the TransCanada and Union systems to accommodate an additional 276 TJ/d commencing November 1, 2016 to Union's Burlington Gate and Bronte Gate stations. (FRPO, p.8)

20. However, this is patently wrong. The June 19, 2015 letter dealt with the question of a new FT contract from Niagara to Union ECDA for 276 TJ/d. As noted above, TransCanada confirmed that "[n]o further capacity is available on this path from TransCanada using the Domestic Line without facility expansion" - that is, no deliveries to Union's Burlington Gate and Bronte Gate stations.

21. The June 19, 2015 correspondence then went on to state further that: "Any additional capacity required on this path would flow from Niagara to Kirkwall to Parkway to Union ECDA". This is the operationalized version of the OGVG Alternative set out in Union's Reply evidence (Exhibit C, p. 22-27) and discussed further below.

22. Notwithstanding that Union (prompted by FRPO's request) obtained confirmation from TransCanada on two separate occasions that no capacity is available and TransCanada in the June 19, 2015 correspondence together with the text of the Settlement Agreement confirm that the capacity is for Enbridge, incredibly, and without any basis whatsoever,

FRPO has also expressed doubt that the 200 TJ/d is set aside for Enbridge (FRPO, p.8). Again, FRPO's position is ill-founded and without foundation. As clearly stated in response to Undertaking J1.1:

> "The Mainline Settlement Agreement reads '…TransCanada may, during the Term, in its sole discretion expand the Hamilton Line capacity to deliver up to 200,000 GJ/day to the Parkway Enbridge CDA Delivery Point from TransCanada's Niagara Falls and/or Chippawa Receipt Points.' (Section 8.2(b), page 15) Please note that the Hamilton Line is a segment of TransCanada's Domestic Line."

23. The June 19, 2015 letter also clearly states "Enbridge successfully bid on this capacity in TransCanada's 2015 new capacity open season".

24. Furthermore, Union witnesses Mr. Redford and Mr. Isherwood set out the facilities work that had or is being completed by TransCanada to establish the Parkway Enbridge CDA Delivery Point for purposes of Enbridge receiving gas from the Niagara to Parkway via the Domestic Line. (Transcript, Vol. 1, p. 28-29) The application and work in respect of TransCanada's Greater Golden Horseshoe facilities project has been undertaken to tie the Domestic Line into the Enbridge System. Specifically, Parkway has two pressures in its yard: (i) a lower suction pressure, and (ii) a higher pressure for discharge into the TransCanada system. Union provides natural gas directly to Enbridge at the lower suction pressure. As stated by Mr. Isherwood:

> "This domestic line will be tying into the same system that we tie into Enbridge at on the suction side or the low pressure of Parkway. So to Mr. Redford's point, the domestic line is being derated, if you want, or lowered to a pressure that better aligns with the suction side of Parkway." (Transcript Vol. 1, p. 29)

25. The evidence is clear as to the limitations of TransCanada's Domestic Line and on this basis the OGVG Alternative is not viable.

Diversions

26. During the proceeding, testimony was given as to whether Union should accept the risk associated with non-firm diversions of natural gas to balance excess gas delivered relative to demand under the OGVG Alternative (Transcript Vol. 2, p. 41-42). Diversions were considered since under the OGVG Alternative there is an inability to deliver gas into

storage comparable to the arrangement available for natural gas sourced from Dawn or delivered to Kirkwall. In any event, because the OGVG Alternative is not viable, the consideration of diversions is not relevant to the Board's consideration.

27. However, even if the consideration of diversions were relevant, the requirement that Union undertake diversions, which are non-firm, to provide gas to the Burlington-Oakville System should be rejected outright. As stated by Mr. Shorts:

> MR. SHORTS: Again, Mr. Quinn, as we have shown in the evidence, contracting from Niagara to the Union CDA is just not practical, because contracting in that manner means that we would have to rely on TransCanada diversions, which are interruptible, and that is what the whole operationalization analysis through the reply evidence was about. (Transcript Vol. 1, p. 93-94)
>
> MR. SHORTS: I am just saying that in the winter, because the gas was flowing by, for example, when we take the Empress to the Union CDA contract and in the winter we plan to drop it off earlier, that gas is going by, we assumed for years we could drop that off and it would be firm. TransCanada curtailed that, saying it was not -- it was not -- it was through a bottleneck and could not accommodate it. So therefore, whether or not there is gas flowing by or not, TransCanada manages their system, calculates and determines their bottlenecks daily. We do not know, summer, winter, whether or not diversions would be firm. (Transcript Vol.1, p. 116-117)

28. Under the OGVG Alternative, diversions will be needed not only in the summer, but at any time consumption is less than contract volume, which could be either summer or winter. As a result, risk is introduced. However, the OGVG Alternative does not include any costs to mitigate that risk such as the acquisition of firm transportation rights to Kirkwall.

29. As clearly stated by Mr. Redford, there is a cost to diversions:

> MR. REDFORD: You would need to get that gas basically from the ECDA to Kirkwall. So right now if you have a Niagara to ECDA contract or CDA contract that you are talking, you have no rights to Kirkwall. So no firm rights to Kirkwall. So it would be a diversion to Kirkwall to get that gas back to Dawn.
>
> MR. QUINN: Right.
>
> MR. REDFORD: Which is part of the reason why when you look in our reply evidence why we split the path, and it makes more sense to go Niagara to Kirkwall, Kirkwall to Parkway, Parkway down to the CDA, because otherwise the

> only other way to do that, you can't buy a CDA to Kirkwall contract. The only way you could do it is to buy a Niagara to Kirkwall on top of the Niagara to CDA contract, and it's a -- basically, it's a double dip to get firm capacity to allow that gas to travel back to Dawn. (Transcript Vol. 1, p. 115)

30. Board Staff's Submissions highlight this risk when they state that "the major flaw of the non-build alternative is that it does not appropriately address the daily balancing of supply and demand. As Union puts it, the non-build alternative would need to be operationalized and in doing so would become more expensive than the Union proposal." (Board Staff, p.4) VECC's submissions state there is "too much risk and lack of information" associated with the OGVG Alternative. (VECC, p. 6)

31. Because the Niagara to Union ECDA path is not viable and diversions would be required, contrary to the assertions of FRPO, Union properly presented the OGVG Alternative on an operationalized basis on a path from Niagara to Kirkwall to Parkway to Union ECDA. As such, the costs and consequences of this operationalized alternative are properly presented. The end result being that the Proposed Pipeline is more economic over the life of the project than the operationalized alternative by at least $68 million on an undiscounted basis and $5 million on a discounted basis. (Transcript Vol. 1, p. 14-15)

Other Contractual Alternatives

32. With respect to the other contractual alternatives considered by Union, it is important to distinguish them from the OGVG Alternative which has dominated the focus of the proceeding. In particular, Union considered the following alternatives in its prefiled evidence:

- Parkway to Union ECDA from TransCanada
- Kirkwall to Union ECDA from TransCanada
- Dawn to Union ECDA from TransCanada
- Dawn/Parkway to Union ECDA from the secondary market[1].

33. For all of these options it was assumed that natural gas is sourced at Dawn. For those involving TransCanada, it is important to note that the alternatives all assumed that

[1] As described at Exhibit A, Tab 7, p. 11-12 diversions on the TransCanada Mainline are not considered firm and are at a lower priority than firm service. Meeting the Burlington Oakville System demand through firm transportation exchange services results in an alternative more costly to ratepayers than building new facilities.

TransCanada could provide service to the Union ECDA. So whether TransCanada could or could not offer the service is not at issue since it was assumed that TransCanada could provide the necessary capacity for each of these alternatives.

34. Relative to the foregoing alternatives, the Proposed Pipeline is again the most economic. (Exhibit A, Tab 9, p. 2) In its submissions, LPMA states the Proposed Pipeline "is better from a rate payer perspective". (LPMA, p. 5)

Supply Diversity and Security

35. FRPO disagrees with Union's submission that the OGVG Alternative would decrease supply diversity and security. (FRPO, p. 10) FRPO believes that Union's position is not substantiated because with the Proposed Pipeline, the Burlington Oakville System would only be connected to the Dawn Parkway System without contractual services from TransCanada. This assertion is flawed. The Burlington Oakville System is no more disadvantaged by being fully served by Union than any other area fully served by Union, Enbridge or TransCanada. In effect, FRPO is ignoring the evidence on the record that supply diversity and security is inexorably tied to the diversity and security of the supply source. The evidence on the record clearly demonstrates that supply sourced from Dawn provides greater diversity and security of supply with the economic benefits of a liquid trading hub.

36. It is undisputed by any party that the Dawn Hub is the number one market hub in the Great Lakes region and the second most physically traded point in North America with nearly 100 active counterparties trading on NGX and over-the-counter. Its strategic location provides direct access to nearly 1 Tcf of natural gas storage in Ontario and Michigan, access to most of North America's major supply basins and connections to major pipelines such as Great Lakes, Vector, Panhandle, ANR, MichCon, Bluewater, TransCanada and Enbridge (Tecumseh). (Union Reply Evidence, Exhibit C, p. 12) [2]

[2] The Dawn Hub is also connected to demand markets in Ontario, Eastern Canada, the Maritimes and the U.S. Northeast through the Dawn Parkway System and downstream pipelines (such as the TransCanada Mainline). All three major LDCs in Eastern Canada (Union, Enbridge Gas Distribution and Gaz Métro) are actively moving large portions of their supply portfolios to Dawn and providing access to Dawn that their bundled direct

37. The Dawn Hub is unlike Niagara, the supply source under the OGVG Alternative. Niagara is not a liquid hub due to its limited pipeline connectivity, lack of direct access to storage, limited number of counterparties who buy and sell at that point and limited price discovery. Niagara is not a supply hub or a market hub. It is simply a trans-shipment point between interconnecting pipelines. (Union Reply Evidence, Exhibit C, p. 10 and 12) The lack of liquidity and counterparties is an even larger issue as the quantity being purchased increases. (Union Reply Evidence, Exhibit C, p. 11-12) The liquidity of Dawn relative to Niagara as a market hub was not contradicted in evidence by any party. Ms. Cheung made some commentary about purchasing at Niagara. However, the record is clear that she has no expertise with respect to gas supply. (Transcript, Vol. 2, p. 15) As a result, any commentary she has made in this regard should not be relied upon by the Board.

38. FRPO, ignoring liquidity, relied on a comment made by Enbridge in an unrelated proceeding about Enbridge's contract price at Niagara. (FRPO, p. 16) However, the consideration of a single price at a single point in time cannot be the basis on which the future security of supply and supply options for the Burlington Oakville System is determined. Pricing changes over time. LPMA submits it is not appropriate for Union South sales service customers to "shoulder the risk of having to purchase gas commodity at Niagara". (LPMA, p. 6)

39. The prices at a location that is not liquid are easily influenced by changes in the surrounding market. Niagara does not possess the characteristics required to develop into a liquid trading point as it is simply a trans-shipment point between TransCanada and three U.S. pipelines and is unlikely to develop into a liquid trading hub. (Exhibit J1.3.)

40. This was explained by Mr. Shorts at the hearing:

> "Liquidity is a very complicated issue. It's not just all about price. It's about ensuring that you can get a competitive price where there are lots of sellers. We know that at a point in which there are lots of sellers there is going to be lots of competition, and you know you are going to get a competitive price. It's not to

purchase customers have requested. This increased activity at Dawn will promote even greater liquidity. (Union Reply Evidence, Exhibit C, p. 12-13) say that there [couldn't] be an anomaly in the marketplace based upon the way gas flows. That price might not necessarily always be the lowest." (Transcript, Vol. 1, p. 81-82; Exhibit J1.3)

41. The anomaly referred to by Mr. Shorts is the lack of contracted takeaway capacity on TransCanada from Niagara, resulting in more gas available at the U.S. border than can be transported into Canada (essentially resulting in gas on gas competition and suppliers wanting to move to a more liquid point such as Dawn). Once TransCanada's expansions are in service, pricing at Niagara will change as a result. Union expects Niagara prices could increase as early as the winter of 2015/2016 due to increased takeaway capacity on the TransCanada system from Niagara and Chippawa. As Mr. Shorts noted at the hearing "… we expect to see those changes start to happen this winter with infrastructure that's being built and the contracts that have been contracted for." (Exhibit J1.3) If gas is truly less expensive at Niagara, it demonstrates a market inefficiency and will result in the provider being economically encouraged to transport that gas to a better market – Dawn. (Transcript, Vol. 1, p. 85-86)

42. Over the next couple of years, the takeaway capacity from Niagara will more closely match the upstream capacity on the U.S. side of the border, which will likely result in prices rising. This was explained by Mr. Isherwood who stated, "But the days of deep discount I think are gone. I think producers and marketers have bought capacity to take it away from [Niagara] to better markets." (Transcript Vol. 1, p. 152-153; Exhibit J1.3)

43. In light of the evidence, FRPO's submissions of sourcing gas supply from Niagara to specifically service once service area such as the Burlington Oakville System are misdirected.

44. The focus of this proceeding is a request to provide distribution system reinforcement through the Proposed Project to serve the customers of Burlington, Oakville and the southern portion of Milton over the long term with a solution that is more economic than contractual alternatives and without the exposure to renewable or non-renewable nature of the capacity and costs uncertainty over the long term.

45. It is not about specifically establishing a gas supply plan just for the Burlington Oakville System. As noted by Mr. Isherwood:

> “MR. ISHERWOOD: . . . we serve the CDA based on peak demand coming out of Dawn and average supply or demand being served by all of our mixed supply, not any one stream going to any one market.
>
> We serve 400 communities in Ontario. We can’t create a supply portfolio for all 400 communities. We do it on a generic integrated basis for all of Union South, and then we look at the north in smaller pieces, but we don’t buy it by community. It is just not done. It is not practical.” (Transcript, Vol. 1, p.94-95)

46. This proceeding is not about redefining the gas supply plan for Union South, in general, in an effort to satisfy a specific need presented by the Burlington Oakville System.

Recalculation of Pipeline Cost

47. In an effort to bolster the OGVG Alternative, FRPO provided in its submissions a recalculation of the Proposed Pipeline costs. This recalculation is incorrect and misleading. FRPO included in the calculation the costs of Union’s long haul contract from Empress to ECDA (11 TJ/d) and its Niagara to Kirkwall contract (21 TJ/d). The costs for both of these contracts should not be included in the Proposed Pipeline’s cost.

48. The 11 TJ/d Empress contract arises because with the Proposed Pipeline, Union is able to decontract transportation capacity down from 67 TJ/d to 11 TJ/d. The 11 TJ/d will be used to meet the average day needs of the Union South system. (Transcript Vol. 1, p. 62) There is no obligation to keep the 11 TJ/d commitment from Empress. It is not committed to meet the Burlington Oakville System needs, but is used to meet the average volume of Union South. (Transcript Vol. 1, p. 66) The 11 TJ/d contract flows a small amount of gas on TransCanada to allow the Burlington and Bronte Gate stations to stay operable for emergency purposes after the Proposed Pipeline is built. Union could also contract from Parkway to Union ECDA to keep the Burlington and Bronte Gate stations open. (Transcript, Vol. 1, p. 66)

49. Based on the foregoing the 11 TJ/d is not specifically dedicated to the Burlington Oakville System and should not be included in the Proposed Pipeline’s cost.

50. With respect to the 21 TJ/d Niagara contact, this contact is from Niagara to Kirkwall and forms no physical part of the Burlington Oakville System. It is a contract for the supply of Union South overall. It's inclusion in the FRPO calculation is unsubstantiated by FRPO and has been employed as a means to increase the resulting calculation asserted by FRPO.

Deferral of the Proposed Pipeline

51. FRPO has proposed that the Proposed Pipeline be deferred for an indeterminate time to permit evaluation of the OGVG Alternative and to permit DSM to reduce the size or eliminate the pipeline. The Proposed Pipeline should not be deferred. As shown, the OGVG Alternative is not viable. Furthermore, the Burlington Oakville area is one of the fastest growing areas in the Province. The design day demands take into account existing DSM program volume reductions. (Exhibit B.SEC.2) (Transcript, Vol. 1, p. 166-167) With respect to reducing the Proposed Pipeline's pipe size. Mr. Isherwood stated:

"...we did look at building a 16-inch line instead of a 20-inch line, and the 16-inch line allows us to grow the system for a year or two or three, but doesn't provide the 40-year look that we have now by building a 20-inch, so if DSM was -- to Mr. Shorts' point, DSM is built into the forecast to a certain extent. To the extent that it's better than forecast, it means the growth will go slower in terms of filling the pipe, but the pipe is economic at year one at full cost. As it depreciates it becomes even more economic. So I think DSM is included to a certain level. To the extent that we can do better at DSM than currently forecast, I think it just fills the pipe slower, but it is still economic even in year one." (Transcript Vol. 1, p. 167)

Furthermore, Mr. Isherwood stated with respect to the development and construction of the Proposed Pipeline, in the proceeding:

" …from the point of view of why build now is really I think the question you are asking, and there is a few reasons. First and foremost, it's economic to our customers. They saved $2.9 million in year one, and that gets better, so there is no reason to wait to build.

Secondly, from a point of view of building, the project costs $119.9 million. It is partly that cost, because buildings in urban area, but that cost would only go up if for no other reason inflation, so it becomes more expensive to build by waiting two years, one year, 12 years.

> The other option, or the other thing that we think about is, we tried initially to go down the Trafalgar Road, and the local city municipality had issues with us doing that, so we moved our pipeline over to 9th Line, and it's really because of urban growth, and we are comfortable and confident that we can get the easements established and built next summer. By waiting five years to 12 years, we had no confidence with urban growth in that area. We saw what TCPL has recently gone through in Vaughan. They are trying to build a pipeline for 2015 through Vaughan, and the developers obviously got quite excited when TransCanada started to cross what appeared to be empty lots, but soon to be developed land. So the developers got quite involved. So we see a window now. We have it -- the path established results in economic project, and it locks in the costs for our ratepayers for the next 40 years in 2016 dollars, which are very economic." (Transcript, Vol.1, p.157-158)

52. As stated in the submissions of NOCBI, NOCBI's socio-economic, environmental and planning concerns have been alleviated, as Union's originally proposed route along a densely-populated route is no longer an option proposed by Union. (NOCBI, p. 2)

BOMA Submissions

53. BOMA's submissions are premised on two incorrect conclusions: (i) Union must show that the non-facilities alternatives are not technically doable and (ii) Union has improperly included the cost of the Kirkwall to Union CDA contract (the "Kirkwall Contract").

54. With respect to the first, the focus is not whether the contractual alternatives are doable. The focus is whether they are more economic relative to the Proposed Pipeline, which they are not. For the alternatives set out in Exhibit A, Tab 7 of Union's prefiled evidence and the operationalized OGVG Alternative considered in Exhibit C of Union's Reply evidence, Union has considered all of the alternatives to be doable. In other words, that the service could be provided. Nevertheless, the results of the analysis are as stated - the Proposed Pipeline is the most economic alternative. Therefore, regardless of whether TransCanada's service could be obtained for short or long-term, the Proposed Pipeline is still the best alternative.

55. With respect to the second, the cost of the Kirkwall Contract has been excluded from the comparative economic analysis. The cost is not included in the analysis for the Proposed Pipeline or for the contractual alternatives since this is a common cost to both the

Proposed Pipeline and the contractual alternatives. Union submits that the Kirkwall contract costs will be paid whether a physical or contractual solution is pursued.

56. As stated by Mr. Isherwood:

> "But it is our expectation that, if Burlington-Oakville does not get approval to proceed, TCPL will immediately initiate discussions with Union to have Union contract for this path.
>
> And from our point of view, it's identical to the situation that existed in 2011 when TransCanada came to us -- in 2011 or prior to 2011, Union was delivering gas to Parkway thinking Parkway was part of the CDA; therefore, if it got to Parkway, it got to the CDA. And TCPL rightly said, "Well, gas at Parkway doesn't get to Burlington and doesn't get to Bronte Gate without using our pipeline," so they asked us to contract for more capacity on that short path, then from basically Parkway to those two gate stations.
>
> So, in Kirkwall, it's the same thing that is happening today is we are getting a free service. Today, we deliver gas to Kirkwall. We nominate gas to Kirkwall, deliver to Kirkwall, and TCPL then operationally takes it to both the Kirkwall Gate station, Kirkwall Dominion, and Hamilton Gate No. 3 …."
>
> * * *
>
> "If I was looking at the TCPL system and knew that Enbridge or central Manitoba was getting a free service, I would take exception to that, because the more revenue TCPL makes, the lower my rates will be, so customers that have the same expectation and TCPL shareholders, because there is an earnings sharing mechanism in the background, TCPL themselves would expect them to maximize revenues. So there is no doubt in my mind that, if Burlington-Oakville does not get approved, that TCPL would initiate those discussions and we would be contracting for that service." (Transcript, Vol. 1, p. 12-14)

57. BOMA argues that the cost of the Kirkwall Contract should only be borne by the Proposed Pipeline for comparison purposes because it was dealt with explicitly in the Settlement Agreement (BOMA, p. 3). However, this is incorrect since it ignores the basis on which the cost of the Kirkwall contract was made explicit through the Settlement Agreement.

58. The explicit recognition of the cost arose from the context of the Settlement Agreement as a whole and not from one particular project. As set out by Mr. Isherwood:

"MR. ISHERWOOD: So the settlement agreement came about because TCPL needed a new framework in order to give them comfort to actually build new pipe. And both Enbridge and Union and Gaz Metro, as well, wanted to get back to Dawn, but that required TCPL building facilities.

So the settlement agreement created a framework that allowed them to build. It gave them -- it turned them back to cost of service essentially, which they didn't have that prior to the settlement. And what we were trying to do is create a scenario of putting all the assets that we need -- that TCPL needs to build into the settlement and all the cash flows that we can predict for the near term, at least, into the settlement and to calculate totals that would be stable between 2015 and 2020.

So I was trying to look at every scenario we could that was big, and we knew we were going to convert from long-haul Empress supply to short-haul Dawn, so that meant less revenue for TransCanada. And we put in Burlington-Oakville as well because we knew that was going to result in reduction in TCPL revenue as well. ….

So TCPL built the revenue result of that into their tolls for the next five years to keep them stable.

So part of the offset -- the capacity return back is worth about $8 million as well. So the Kirkwall to CDA volumes were worth about $8 million as well. So TCPL lost this bucket of revenue but got the other bucket to kind of keep them whole and build that into -- build that into their forecast for the next five years and create that stability they were trying to get.

So they were really trying to look at what's happening -- everything happening at Parkway, really, and that was a board directive we got in 2012 was the three companies -- three being Enbridge, Union and TCPL -- look at all the projects in the Parkway area, come up with a facility set that makes sense. And Enbridge's GTA project, for example, got included there as well. Our Dawn to Parkway expansions got included in terms of assume they happen. And TCPL got three projects that we assume happened as well. And they all need -- all of them need regulatory approval, either NEB or OEB. But just to get a common assumption, we included that." (Transcript, Vol. 1, p. 169-171) *(emphasis added)*

59. BOMA and FRPO have attempted to present an inconsistency in the manner in which the Kirkwall Contract is described by Union at the Technical Conference and the hearing in an effort to question whether the Kirkwall contract will remain a cost in all circumstances. However, contrary to the submissions of BOMA and FRPO, Union has

been consistent in its description of the contract and the payment for that service regardless of whether the Proposed Pipeline or a contractual alternative is pursued.

60. At the Technical Conference, Union was how asked it would meet the “demand” for the 135 TJ/d in the event a contract for capacity is used instead of the Proposed Pipeline. Mr Isherwood described how that physical “demand” would be met. At no time was he asked if a cost would be incurred in the circumstance where a contract was used. To complete the record, Union in its Reply evidence (Exhibit C, p. 19-20) and in direct examination (Transcript Vol. 1, p.12) clarified that a cost would be incurred in any circumstance.

61. The conclusion that a cost would be incurred in this circumstance is entirely reasonable. The service has been long standing. A monetary value has been placed on the service as part of the Settlement Agreement. Given TransCanada’s obligation to maximize it’s revenues for the benefit of its customers, TransCanada should not be expected to ignore that monetary value and continue to provide a free service - especially when it had previously monetized a similar service in the case of Parkway. The cooperation between utilities referred to in BOMA’s submissions (BOMA, p. 4), does not mean that TransCanada or Union should or would abandon the obligation to maximize revenue and to not permit the cross subsidization of customers by offering a free service. As a result, it is reasonable to conclude that the costs reflected in the Kirkwall Contract is a cost common to both the Proposed Pipeline and the contractual alternatives and that Union has properly completed the comparative economic analysis.

62. Furthermore, it is also important to note that BOMA is incorrect when it states in its submissions that Union has included in the calculation of the “next best alternative” costs relating to the Kirkwall Contract. (BOMA, p. 5) This is incorrect. For the reasons set out above, Union has not included the cost of the Kirkwall Contract in either the build or the non-build alternatives[3].

[3] This is the case for alternatives sourced at Dawn and set out in the pre-filed evidence. Union did provide one scenario for the operationalized OGVG Alternative where the costs were included and one where they were not included in Exhibit C. The Proposed Pipeline remains economic in both circumstances.

2015-2016 Contract

63. BOMA also raises concerns that further inquiry should have occurred with respect to 2015-2016 contract with TransCanada for capacity to serve Burlington Oakville System. Union notes that this information was provided to all parties at the outset of the hearing permitting all parties to cross examine further.

64. In any event, the consideration of the 2015-2016 TransCanada contract and variations on it as raised by BOMA (BOMA, p 7-8) is not relevant to the issue before the Board. Union, at all times, assumed in its analysis that TransCanada could provide the service required and at the same time showed that service from TransCanada was not as economic as the Proposed Pipeline and as such is in the public interest. Consideration of the aspects raised by BOMA will not change the fundamental aspects of the economic comparative analysis in which the contractual alternatives were considered. These aspects being demand and TCPL's tolls and tariffs.

65. Since the Proposed Pipeline is economic relative to the TransCanada contractual alternatives, including the Parkway to Union CDA contract for 2015 - 2016, Union entered into a non-renewable contract for 62,000 GJ/d for one year to bridge Union's need until the Proposed Pipeline comes into service in November 2016 (Transcript Vol. 1, p. 16). Although, renewable service was available from TransCanada for amounts up to 92, 000 GJ/d, Union chose not to pursue that option since as noted above, the comparative economic analysis was in favour of the Proposed Pipeline. Also, while a renewable contract would provide security for existing supply, there was no assurance that renewable capacity would be available in the near future when demand growth required additional capacity. In the future, Union's customers could remain exposed to the potential for non-renewable capacity on a contractual basis as opposed to the assurance of capacity at a declining cost with the Proposed Pipeline.

APPrO Submissions

66. APPrO asserted that the Board should consider whether the E.B.O. 134 Guidelines should apply in the consideration of the Proposed Pipeline. APPrO premises its assertion solely on the fact it is "a very large transmission pipeline" and gives no consideration as

to its use (APPrO, p.4). Union clearly stated that “[t]he Project will not be used to transport gas for other shippers” (Exhibit B.Staff.2-1). APPrO’s claims are not supported by evidence in this proceeding. The appropriate economic assessment is to compare the cost of building a pipeline against the avoided cost of purchasing the services (e.g., build vs buy analysis), not through E.B.O. 134.

67. APPrO also suggests that the Board should conduct natural gas market reviews to assess natural gas utilities and TransCanada’s long-term market requirements, risks, non-facility and facility alternatives to provide context for individual expansion proposals (APPrO, p.6. In Union’s submission, Union already addresses gas supply as part of its annual stakeholder meeting where its gas supply plan is presented. Furthermore, its gas supply plan is filed with the Board. Union provides information on major infrastructure projects as part of the stakeholder meeting. This review provides expert analysis on supply and demand as well as a presentation from Union that covers all the aspects raised by APPrO in its submissions. In addition, the Board conducts Natural Gas Market Reviews to examine developments in the North American gas market to assist the Board’s consideration of any potential implications for the Ontario natural gas market.

SEC’s Submissions

68. SEC, in its submissions, was unable to reach conclusion as to whether the Proposed Pipeline or the OGVG Alternative should be found acceptable to the Board. Apparently, SEC was of a view that there was insufficient evidence for it to decide. Union notes that this was the same basis on which SEC requested an oral hearing in its correspondence to the Board on September 2, 2015. In being successful in obtaining an oral hearing, SEC had a full and complete opportunity to cross examine all witnesses and to obtain the factual foundation on which to reach a conclusion. Union submits that based on the prefiled evidence and reply evidence, interrogatories, the technical conference and hearing there is a clear evidentiary record on which to conclude that the Proposed Pipeline is in the public interest.

69. In any event, notwithstanding SEC's apparent indecision of which option to support, SEC found there to be sufficient evidence to reach some clear and specific conclusions in favour of the Proposed Pipeline, which are as follows:

- The Alternative Proposal hinges on the idea that it is a more economical option than Union's proposed pipeline. SEC submits the evidence demonstrates that this is not the case. SEC accepts that Union's operationalized version of the Alternative Proposal is a more accurate understanding of how Ms. Cheung's proposal would need to be structured in practice. (SEC, p. 4)

- SEC believes Ms. Cheung has misunderstood Union's costing evidence. The problem is, on any given day, not all gas procured at Niagara will be delivered to the Burlington-Oakville area. Regardless of the route, Union requires capacity to divert some of that amount to storage, and on days when demand is in excess of average day, ship it up to Parkway. It cannot simply rely on procuring more than average day demand and hoping that TCPL will allow it to make a diversion at Kirkwall (or some point west). The evidence was that TCPL will not provide firm diversions on this path. While Ms. Cheung indicated that this is simply a matter of risk, Union is not only a shipper but also a distributor. It would be imprudent for it to rely on non-firm diversions. It requires separate capacity on its own system when demand varies from average day demand of the Burlington-Oakville area. (SEC, p. 4)

- [with respect to the Kirkwall Contract] SEC agrees Union will have to pay for this capacity, and that the amount is likely to be less than $8.25M but certainly not zero. (SEC, p. 5)

- Union's proposal is still likely to be cost-effective over the first 13 years of the project, and much more cost-effective over the subsequent years. (SEC, p. 5)

- While there is an option of delaying the proposed pipeline, until the cost consequences of building the pipeline become cheaper than not building, Union has provided a reasonable basis why that would not be in ratepayers' best interests. (SEC, p. 5)

Conditions of Approval

70. The submissions of Board Staff noted that the Board has introduced a new set of standard conditions. These were set out in Schedule A to Board Staff's submissions. Union accepts those conditions.

Conclusion

71. The Proposed Pipeline is the most economic alternative to serve the needs of the Burlington Oakville System. The OGVG Alternative is not viable and has been abandoned by its sponsors. The Proposed Pipeline satisfies the need for security of supply, locks in costs that decline over time and provides savings to rate payers. In addition, 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, p. 3) As such, Union submits the Proposed Pipeline is in the public interest and leave to construct should be granted.

All of which is respectfully submitted this 30th day of October, 2015

UNION GAS LIMITED
By its counsel Torys LLP

[original signed by]

Charles Keizer