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November 26, 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-2015-0166/EB-2015-0175 - 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: All Parties (e-mail)

EB-2015-0166
EB-2015-0175

Union Gas Limited
Enbridge Gas Distribution Inc.

Applications for pre-approval of the cost consequences of long-term natural gas transportation contracts with NEXUS Gas Transmission

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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 Limited ("Union") and Enbridge Gas Distribution Inc. ("EGD") applications for pre-approval of the cost consequences of long-term natural gas transportation contracts with NEXUS Gas Transmission.

The submissions that follow are concentrated on the Union application since all LPMA members are served by Union. However, as we be noted below, the EGD application also has indirect impacts on LPMA members. As a result, while the submissions that follow are related to Union, they are also applicable to EGD.

B. BACKGROUND

LPMA members are served by Union under rates M1, M2 and M4 in Union South. LPMA members are both system gas supply customers and direct purchase customers on the Union system. While there are exceptions, the larger LPMA members tend to be direct purchase customers, while the smaller LPMA members tend to be system gas customers. By volume consumed, the direct purchase members are more than the system gas customers, while by number of members, system gas members outnumber the direct purchase members.

This application is important to both type of customers (system gas and direct purchase). The impact on system gas customers is obvious in that the costs incurred by Union for the NEXUS contract would flow directly through to those customers, while direct purchase customers would not be impacted by these costs.

However, direct purchase customers are impacted indirectly by the NEXUS contracts - both Union and EGD. The addition of more pipeline capacity into the Dawn Hub will at worst, maintain the liquidity at Dawn (given that the NEXUS capacity replaces, at least in part, existing capacity into Dawn) and at best, improve the liquidity. Liquidity is important to direct purchase customers, as it is to system gas customers, because it has a direct impact on price. The more liquid a trading hub is, the more competitive and less volatile are prices at that hub. This was confirmed by Union as their view (TC Tr. Vol. 1, page 176).

C. SUBMISSIONS

LPMA submits that there are three issues that the Board should deal with in this proceeding. The first is whether the NEXUS contract with Union is prudent and delivers value to Union's ratepayers. If the answer to that question is yes, then the second issue is whether Union's request for pre-approval of the cost consequences associated with the contract is appropriate. If the answer to that question is no, then the third issue is what are the consequences of the denial of the pre-approval of the cost consequences when it has been determined that the NEXUS contract provides value to ratepayers.

i) Does the NEXUS Contract Provide Value to Ratepayers?

LPMA has broken down its analysis of the value to ratepayers of the proposed Union NEXUS contract into a number of categories, each of which plays a role in the determination of potential value to ratepayers.

a) Diversity

LPMA has always supported the need for diversity of supply and continues to do so. In particular, LPMA supports as many transportation paths and access to as many supply basins as is possible and practical. This is important because, as has been seen over the last number of years, changes can take place quickly in the North American market. This can result in significant changes in price differentials between the various supply basins. LPMA submits that it is critical that Ontario natural gas consumers have the ability to access multiple supply basins through multiple transportation paths. This results in more options for consumers, enhanced reliability, enhanced competition and greater price stability.

Through the interrogatory process and the technical conference and cross-examination, some parties appear to be concerned with the size of the NEXUS contract negotiated by Union. The contract is for 158,258 GJ/day (Ex. A, page 28). This represents approximately one-third of Union's total supply portfolio (Tr. Vol. 1, page 57).

While this may appear to be a significant percentage of the total supply portfolio, LPMA submits that it needs to be considered in the context of the current level of diversity within both the North and South portfolios.

Figure 5-1 on page 29 of Exhibit A clearly demonstrates the added diversity to Union's North portfolio by added supply sourced through NEXUS. The level of current diversity is non-existent in the north, given that 100% of the supply is sourced from the WCSB through TCPL. With the addition of NEXUS, 26% of the north supply will be sourced through this pipeline from a different basin. In addition, Dawn/Other supplies will also account for 26% of the north supply, reducing the WCSB/TCPL component to 48%. This is a significant increase in the diversity for the North supply portfolio.

In the South, the impact is similar, although not as pronounced as in the North. Figure 5-2 on page 31 of Exhibit A illustrates the changes. With NEXUS in place, 30% of the South portfolio will come through NEXUS from Appalachia. Currently 31% of the South portfolio comes from Chicago through Vector. This will decline to 23%.The percentage from the WCSB through TCPL will decline from 15% to 3% while the amount from the WCSB through Alliance/Vector will decrease from 21% to nothing. Gas sourced at Dawn/Other will increase from 8% to 17%.

There are no changes in gas sourced from Michigan (3%), local production (1%), Niagara-TCPL (6%), Gulf of Mexico - TGC/PEPL (6%) or Mid-Continent - PEPL (11%). These sources continue to account for about 27% of the South supply portfolio.

LPMA notes that the South supply portfolio maintains 9 different supply basin/paths in the portfolio and that while the NEXUS supply is the largest source at 30%, this is actually smaller than the Chicago-Vector component of 31% in the current portfolio.

In addition in the current portfolio, 36% of the South supply is sourced from the WCSB (TCPL & Alliance/Vector). In the proposed South supply portfolio, Appalachia will account for the same level of the portfolio of 36% (NEXUS & Niagara).

In summary, LPMA submits that there is no evidence to suggest that the level of the NEXUS contract is decreasing diversity. In fact the evidence clearly demonstrates the opposite. There is a significant increase in the diversity for the North portfolio and a marginal increase in the diversity for the South portfolio.

LPMA submits that the increase in diversity as a result of NEXUS creates value to ratepayers.

b) Security of Supply

A number of parties have suggested that Union's security of supply would be enhanced if it brought less gas into Dawn and more in through Niagara and/or Iroquois.

LPMA submits that the Board should not look at security of supply on a company by company basis, but rather on an Ontario-wide basis. Current transportation through Niagara from the Marcellus/Utica basin is about 221,000 GJ/day (200,000 for EGD, 21,000 for Union). The total NEXUS capacity for Union and EGD is about 274,000 GJ/day (158,000 for Union, 116,000 for EGD).

LPMA submits that this is a balanced approach for Ontario between supplies coming in at Dawn and Niagara from the Marcellus/Utica basin.

LPMA also notes that there is limited availability to bring in more gas at Niagara at the current time. Union agreed that it could not bring in any significant amount of incremental gas at Niagara until somebody comes forward with a project to get more gas, through and away from Niagara (TC Tr. Vol. 1, pages 175-176 & Ex. J2.2).

LPMA believes that security of supply is enhanced through a balance approach that utilizes as many different supply points as is economic. LPMA also notes that approximately two-thirds of Union supply portfolio is uncommitted at this time (Tr. Vol. 1, page 63). In the future, LPMA would expect that Union (and EGD) would look at potential transportation paths that go through Niagara and Iroquois, as well as additional volumes coming in at Dawn to enhance security of supply for the province.

LPMA submits that the development of NEXUS will allow more gas to flow into Ontario from the Appalachia basis and agrees with Union that the NEXUS project will allow for similar amounts of gas to flow into Ontario at two different points (Tr. Vol. 1, page 7) and that this creates value for ratepayers through enhanced security of supply.

c) Cost Consequences of the NEXUS Contract

Union's NEXUS contract sets a fixed price for the full 15 year term of the contract (Tr. Vol. 2, page 23). As an anchor shipper, Union gets a lower rate than other shippers, such as EGD that are not anchor shippers and it also provides Union and its ratepayers with most favoured nation status ((Tr. Vol. 2, page 102).

Some parties may be concerned that this adds risk to ratepayers. LPMA disagrees. In LPMA's view, this reduces risk to ratepayers. The price is fixed for 15 years so there is no risk associated with price changes over that 15 year period. The price is at a discount to what other shippers have to pay. The only risk that ratepayers are taking on is whether or not the costs would be different from that associated with the NEXUS contract over the 15 year horizon.

LPMA submits that the risk to ratepayers is symmetrical in that the costs could be higher or lower than that embedded in the rate payable to NEXUS. As well, the risk to ratepayers of going ahead with the NEXUS contract are no different than the risk to ratepayers of not going ahead with the NEXUS contract. In other words, there are risk associated with doing something, but also risks associated with doing nothing.

LPMA submits that by fixing the rates associated with the NEXUS contract over the entire 15 year period is a net benefit to ratepayers as it reduces the potential volatility in costs associated with transportation over the 15 year period. By locking in one component of their transportation for their gas supply portfolio, Union has eliminated some of the uncertainty associated with that portfolio. This provides value to ratepayers through reduced volatility.

d) Purchases at Dawn vs. Kensington or Niagara

At the outset, LPMA submits that relying on any forecasted landed price analysis is a mugs' game. One only has to go back 10 years and look at the gas price forecasts from the various basins to see how wrong they were. The most prolific basin in North America was not even included in the forecasts.

There was a lot of discussion throughout this application about the price now and in the future at Dawn as compared to Kensington plus transportation tolls, or as compared to Niagara.

LPMA submits that these comparisons miss the point. That point is that ratepayers are best served by a diversified portfolio. The Board recognized this in the EB-2012-0451/EB-2012-0433/EB-2013-0074 Decision dated January 30, 2014. At pages 23 and 24 of that Decision, the Board stated:

> *"It is the Board's view that while uncertainties exist for all supply sources in terms of future cost and availability, it is widely acknowledged, including by this Board in prior decisions, that supply diversification enhances reliability and brings cost benefits through enhanced competition."*

LPMA likens the supply diversification noted above to a food processor that wants to buy a significant volume of farm fresh eggs for just in time delivery. The food processor could buy all of their eggs from one on supplier or they could purchase from a number of producers. The different purchase scenarios reflect different levels of risk. The high risk option is to purchase from only one producer and have them delivered to the processing plant on a daily basis. This is also known as putting all your eggs in one basket. If there is a supply disruption at the only producer you purchase from, your food processing comes to a standstill. The lower risk option is to spread the purchases over a number of producers. A disruption at one producer will not cripple the processing plant and the remaining producers that are under contract may be able to offset the reduction in production from the producer that is unable to deliver on a given day. The price paid for the eggs is not likely to be the same for each of the producers. Nor will the cost of shipping the eggs to the processing plant be the same from each producer.

Through the NEXUS contract, Union is proposing to get one-third of their eggs at Kensington and ship those eggs through the NEXUS pipeline at a known and fixed cost. Union will continue to buy some of its eggs in other supply basins and ship them to Ontario through other pipelines. Union will also buy some its eggs at Dawn.

LPMA submits that this is an appropriate purchasing and transportation supply mix that enhances ratepayer value through diversification, reliability and price stability.

e) Future Options

Union has indicated that it still has approximately two-thirds of its supply portfolio that is not committed (Tr. Vol. 1, page 63), assuming the NEXUS contract is approved.

LPMA submits that this leaves open options for purchasing and transporting additional gas at/through Niagara and Iroquois if those points are adequately developed (including upstream and downstream capacity). However, those developments may also require long term contracts.

In any event, there is flexibility that can be used by Union going forward. This flexibility is of value to Union ratepayers as it gives them options going forward.

f) Risk to Ratepayers

LPMA submits that there always risks to ratepayers of any decision. There is risk to ratepayers associated with the NEXUS contract. There is also risk to ratepayers if there is no NEXUS contract.

LPMA submits that the NEXUS contract adds to the diversity of the gas supply portfolio of Union. This added diversity enhances reliability, reduces price volatility, maintains or enhances liquidity at Dawn and increases competition.

Overall, LPMA submits that the NEXUS contract with Union reduces risk to ratepayers relative to that in the absence of the NEXUS contract. Reduced risk is of value to ratepayers.

g) Will NEXUS Proceed Without Union & EGD

The elephant in the room, so to speak, throughout this proceeding is whether or not the NEXUS project would proceed without Union and EGD as committed shippers in the project. LPMA submits that the Board cannot answer this question because no one knows.

If the project proceeded without Union and EGD contracting for capacity directly with the pipeline, there would be no need for either distributor to commit to long term costs for gas supply transportation. On the other hand, if the project is cancelled because neither Union nor EGD would commit to being a shipper on the line, then there would be negative consequences to ratepayers. The liquidity of Dawn would be reduced and Ontario could lose out on access to a cheap and relatively local supply of natural gas.

Getting this gas to Ontario is a significant benefit to Ontario ratepayers. No one disagrees with that. This gas has the potential to represent a significant proportion of the gas consumed in Ontario. Clearly access to this gas is very important to Ontario.

On the other hand, Ontario represents a relatively small market for this Appalachia gas. LPMA submits that the gas produced in this region will find its way to markets, one way or another. The removal of the Ontario market is not likely to be missed by the producers.

While no one can predict with certainty whether or not the NEXUS project would continue without Union and EGD as shippers, LPMA submits that there is greater downside risk to ratepayers in Ontario of the NEXUS project not proceeding than the risk that accompanies the NEXUS contracts. In other words, there is no upside of the NEXUS project being cancelled, but there is a definite downside.

h) Conclusion

Based on the foregoing analysis, LPMA submits that the NEXUS contract does provide value to ratepayers and that the Board should determine that the NEXUS contract is in the best interest of ratepayers. LPMA submits that the NEXUS capacity will benefit ratepayers, because Union's gas supply will be incrementally more secure, diverse and reliable than would be the case without NEXUS capacity.

If the Board were to determine that the NEXUS contract does not provide value to its ratepayers or that it cannot determine that it does provide value, then LPMA submits that the Board should not grant Union pre-approval of the cost consequences of the NEXUS contract. However, should the Board determine that the NEXUS contract does provide value to ratepayers, then the Board needs to address the issue of pre-approval of the cost consequences.

ii) Pre-Approval of Cost Consequences

If the Board determines that the NEXUS contract provides value to ratepayers, then it must turn its attention to the pre-approval of the cost consequences of that contract.

LPMA submits that the applicability of the Guidelines issued by the Board in EB-2008-0280 to the NEXUS contract is far from clear. At page 4 of the February 11, 2009 Report of the Board the Board ("Report") concluded that:

> *"The Board believes that these applications should be limited to those that support the development of new natural gas infrastructure (e.g., new transportation facilities to access new natural gas supply sources). The Board does not believe that the preapproval process for long-term contracts should be used for the utility's normal day-to-day contracting, renewals of existing contracts and other long-term contracts. These contracts should continue to be addressed in the utility's rate application."*

The clear interpretation of the Report is that these applications should be limited to those that support the development of new natural gas infrastructure. Several parties have also interpreted this conclusion to mean that it has to be new transportation facilities to access new natural gas supply sources. However, LPMA notes that in the above excerpt from the Report, this was simply an example given. The development of new natural gas infrastructure should not and cannot be limited to the example given.

LPMA submits that the NEXUS contract is clearly related to the development of new natural gas infrastructure. It is further submitted that this contract cannot be considered as part of Union's normal day-to-day contracting. From this perspective, LPMA submits that the NEXUS contract qualifies for pre-approval. Further, if the Board determines that the NEXUS contract does not qualify for pre-approval, then LPMA submits that it is highly likely that nothing would ever qualify.

The crux of the matter, in the view of LPMA, in this proceeding is whether or not the NEXUS contracts with Union and EGD "*support the development of new natural gas infrastructure"* or whether this development would proceed without the involvement of Union and EGD as shippers on NEXUS.

If the Board determines that the NEXUS project would proceed absent involvement of Union and EGD then it should not pre-approve the cost consequences of those contracts. On the other hand, it the Board believes that the NEXUS project would not proceed in the absence of Union and EGD participation, then clearly the applications meet the intent of supporting the development of new natural gas infrastructure.

The third option, of course, is that the Board may not be able to form an opinion on whether or not the NEXUS project would proceed without Union and EGD. In this situation, LPMA submits that the Board should rely on its finding that the NEXUS project provides value to ratepayers.

In reaching such a conclusion, the Board may well have a number of qualifications with respect to the pre-approval of the costs consequences of the NEXUS contracts. For example, the Board may determine that only a portion of the cost consequences should be pre-approved, or that all of the cost consequences would be pre-approved subject to Union and EGD fulfilling any further requirements as may be determined by the Board.

If the Board determines that it will not grant pre-approval of the cost consequences of Union's NEXUS contract, then the Board, in the submission of LPMA, needs to deal with the consequences to ratepayers of that denial.

iii) Consequences of Pre-Approval Denial for a Contract that Provides Value to Ratepayers

Union has been very clear that it would not proceed with the NEXUS contract if the Board does not grant it pre-approval of the cost consequences for the 15 year term of the contract (Tr. Vol. 1, pages 68-70). Whether or not this would actually be the case is unknown at this time. Union may be pressured to proceed with the contract by its parent company. Union may be at risk for a prudency review of whatever it does in place of NEXUS (see below).

However, if the Board determines that the NEXUS contract provides value to Union ratepayers but does not approve the pre-approval of the cost consequences because the contract does not meet the criterion for such approval, LPMA submits that Union should still proceed with the project.

Union's concern, in fact their only concern. is related to the financial risk that Union would be taking on (Tr. Vol. 2, pages 2-3). Union does not have a markup on the commodity and does not make a return associated with the cost of gas. Rather the cost of gas is a pass through. Union's view is that since it cannot make any return on the gas costs, its shareholder cannot take any risks on having costs disallowed.

LPMA submits that if the Board determines that the NEXUS contract provides value to ratepayers, then the risk of disallowance of costs in the future is very unlikely. The Board will have determined that the NEXUS contract provides value to customers based on the information before it in this proceeding. In future proceedings the Board could not and should not review the prudency of the decision to go with the NEXUS contract using hindsight.

Given that Union has negotiated what appears to be a good deal, including rates based on anchor shipper status and most favoured nations status, LPMA submits that only something out of the ordinary and not identified in this proceeding, would cause a prudency review in the future.

Thus, if the Board determines that the NEXUS contract provides value to ratepayers, but does not pre-approve the cost consequences, LPMA submits that the risk to Union and its shareholder would be very minimal.

LPMA is also concerned that Union would not proceed with the NEXUS contract given Union's evidence in this proceeding that it is the best alternative based on the known facts at this time. If this indeed the case, and Union does not receive the pre-approval it is requesting, and does not proceed with the contract, then by definition, whatever it does will be a worse alternative for Union ratepayers than proceeding with the NEXUS contract. This may well result in parties questioning the prudency of Union's gas supply decisions and it certainly implies higher risk for Union's ratepayers.

If the Board does determine that it will not pre-approve the cost consequences of the NEXUS contract but also believes that the contract provides value to ratepayers, then LPMA submits that the Board should direct Union to immediately bring forward alternatives that are as equally valued by its ratepayers as the NEXUS contract. If Union cannot find such alternatives, then it should be clear that Union will be at risk for the loss in value to ratepayers and that future prudency reviews may be required to determine the extent that Union should be held responsible.

D. 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

November 26, 2015

Randy Aiken

Consultant to London Property Management Association