uniongas
A Spectra Energy Company

January 22, 2016

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

Dear Ms. Walli:

Re: EB-2015-0181 - Union Gas Limited ("Union") – Dawn Reference Price and North T-Service Application Reply Submission

Please find enclosed Union's Reply Submission in the above noted proceeding. It will be filed in the RESS and copies will be sent to the Ontario Energy Board.

If you have any questions with respect to this submission please contact me at 519-436-5476.

Yours truly,

[*Original Signed by*]

Chris Ripley
Manager, Regulatory Applications

cc: Crawford Smith, Torys
EB-2015-0181 Intervenors

ONTARIO ENERGY BOARD

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 approval to change the reference price used in the Quarterly Rate Adjustment Mechanism process and to set rates and other charges for the sale, distribution, transmission and storage of gas effective January 1, 2016.

REPLY SUBMISSIONS OF UNION GAS LIMITED

1. This is Union Gas Limited's ("Union") Reply Submission in EB-2015-0181.

A. Background

2. Union filed an application with the Ontario Energy Board (the "Board") on July 15, 2015 pursuant to section 36 of the *Ontario Energy Board Act, 1998,* for approval to change the reference prices used to set commodity rates through the Quarterly Rate Adjustment Mechanism ("QRAM") process. Union also requested a new optional North T-Service Transportation from Dawn service to provide T-Service customers with access to Dawn-based supply.

3. In Procedural Order No. 1 dated September 23, 2015, the Board scheduled a three-day Settlement Conference starting on November 9, 2015, with the objective of allowing the parties to reach a settlement. Union filed a Settlement Proposal on November 30, 2015, which settled all issues except those related to the new optional North T-Service Transportation from Dawn service. The Board accepted the Settlement Proposal in its Decision and Procedural Order dated January 7, 2016.

4. In Procedural Order No. 2 dated January 7, 2016, the Board invited interested parties to make submissions in response to the unsettled North T-Service Transportation from Dawn service issue. The following parties made submissions: Board Staff, the Association of Power Producers of Ontario ("APPrO"), Canadian Manufacturers & Exporters ("CME") and Industrial Gas Users Association ("IGUA").

5. These reply submissions respond to the submissions of those intervenors. In summary, in Union's submission, each of: (a) APPrO's submissions regarding service design; (b) APPrO's submissions regarding disposition of the Base Service or the Base Service North T-Service TransCanada Capacity Deferral Account (the "deferral account") balance; and, (c) IGUA's and APPrO's submissions regarding cancellation costs, should be rejected.

B. Union's Reply

Customer Developed Service

6. The North T-Service Transportation from Dawn service was developed in response to customer requests and through numerous consultations with T-Service customers in Union's North East Zone. It provides: (a) firm transportation from Dawn to the Union NDA, EDA and NCDA; (b) customers with access to the liquid Dawn Hub; (c) the ability to participate in new capacity without the requirement to sign 15 year contracts; (d) the ability to manage commitments to the service with end-use plant requirements; and, (e) the ability to move from long-haul transportation contracts and/or reliance on secondary market services to meet firm demands.

APPrO's Submissions Regarding Service Design Should Be Rejected

7. APPrO raises the following concerns regarding service design, all of which should be rejected: (a) alleged opposition from customers; (b) shortening of the minimum contract term due to alleged weak commitment; and, (c) alleged design for small-volume customers. APPrO's submissions are inconsistent with the evidentiary record and without merit.

8. ***Customers support the proposed service.*** At paragraph 9 of APPrO's submission, APPrO states that Union proposed the service in response to both changing gas supply dynamics and potential changes in the secondary gas transportation market as a result of capacity reductions in the Union Eastern Delivery Area ("EDA") due to TransCanada's proposed Energy East project. More correctly, the service was also designed in response to customer requests to access supply

at Dawn and for the ability to transport Dawn supply on a firm basis to the Union North East Zone to meet their supply needs. This is set out in Union's evidence. [1]

9. At paragraph 10 of its submission, APPrO suggests that Union is proposing the service "*…despite strong opposition from the majority of its large volume customers and particularly Rate 100 customers*". The suggestion that Union's large-volume customers are "strongly opposed" to the service is inaccurate. On the contrary, as demonstrated by the minutes from the meeting at which the proposed Base Service and deferral account were introduced, there was sufficient support among customers for the service concept that it was determined that Union should proceed with it: "*while there were some questions…there appears to be sufficient support for the service concept that Union should proceed to the next steps.*"[2]

10. ***The proposed minimum contract term was shortened in response to customer feedback.*** At paragraph 12 (a) of its submission, APPrO asserts that Union's proposed minimum commitment from customers was reduced from three years to one year due to a weaker commitment by North T-Service customers to have long-term responsibility for the capacity and financial commitments. This too is inaccurate. Union changed the proposal from an initial contract term of three years to one year to accommodate contracting of the proposed service on the Union North distribution contract. The one year anniversary allows for modest changes at the same time that the distribution contract renews. It is important to note that under both proposals, Union North T-Service customers would still be committed to the capacity for the full 15-year term, and the only change was to the original contract term required. Customers indicated during the consultation sessions that their ability to sign long-term contracts was limited (see also paragraph 11 of IGUA's submission). Therefore, Union proposed a compromise which was agreeable to all parties. Incorporating this service into the distribution contract also eliminated the need to sign a separate stand-alone agreement, which was preferred by customers.[3]

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[1] EB-2015-0181, Exhibit A., Tab 3, p. 1.
[2] EB-2015-0181, Exhibit B.SEC.5, pp. 61-62.
[3] EB-2015-0181, Exhibit B.SEC.5, p. 50.

11. ***The proposed service was designed for both small- and large-volume customers.*** At paragraph 19 of its submission, APPrO states that Union's proposed service was primarily designed for small-volume customers. Again, this is inaccurate. The 3,000 GJ/d limit for the Base Service was proposed to limit the impact one customer could have on other T-Service customers should one customer cease using the service.[4] The cost impacts and capacity re-allocation to other T-Service customers (as originally proposed) of a large customer ceasing to use the service was a concern that Union heard from customers. However, as part of the service proposal, in addition to proposing a quantity limit of 3,000 GJ/d on the Base Service, Union also introduced the Supplemental Service to meet the needs of the very large-volume customers that had demands in excess of what they could contract for under the Base Service. Two large volume customers contracted for the Supplemental Service.

12. Further, at paragraphs 23, 24 and 26, APPrO states again that the proposed service was designed for small-volume customers and that larger customers have much less practical ability to use this service. This is inaccurate. Larger, more sophisticated, customers should be able to incorporate Union's proposed service into their supply portfolio more easily than smaller customers, because they have more resources to accommodate the contracting and operation of various services. Regardless of size, the service was designed to allow for a seamless transportation path from Dawn to the delivery areas, which reduces the administrative burden for this service. Rate 20 and Rate 100 customers were active participants in the information sessions during which the service was designed and explained, both before and after the service design changes. Union was responsive to the concerns raised by large-volume customers during those sessions, and developed the Supplemental Service to allow for those customers wishing to contract for more capacity than the Base Service would allow. Since the Supplemental Service would not impact the Base Service or the deferral account, it was considered a balance between protecting smaller customers from large capacity turnback risk and the desire of larger customers to contract for more than 3,000 GJ/d without requiring them to sign a 15-year contract with TransCanada for the capacity.

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[4] EB-2015-0181, Exhibit A, Tab 3, p. 8.

13. In Union's submission, the proposed service was designed through consultation with customers, including both large- and small-volume customers. The final service offering balances the request by customers for access to Dawn supply and firm transport from Dawn to the Union North East Zone, while limiting the financial impact that any one customer may have on the proposed deferral account. This service was designed by and for customers.

APPrO's Submissions Regarding Disposition of the Deferral Account Balance Should Be Rejected

14. The description of the proposed deferral account at paragraph 4 of APPrO's submission is inaccurate. As set out in Union's evidence, the Base Service North T-Service TransCanada Capacity Deferral Account records *"the differences between revenues and costs for the excess capacity from Parkway to the Union Point of Receipt as part of the Base Service offering of the North T-Service Transportation from Dawn.*"[5] Contrary to APPrO's submission, the proposed deferral account will not capture the costs associated with arranging the necessary upstream transportation capacity or the revenue recovered from Union North T-Service customers. It is solely designed for excess capacity created through plant closures or demand reduction.

15. At paragraph 14 of its submission, APPrO asserts that the anticipated commercial benefits of the proposed service will accrue directly and solely to those customers that subscribe to the service. To the contrary, customers that did not elect to take the service will also benefit from the service. The North T-Service Transportation from Dawn service will increase the amount of firm transportation capacity into the Union North East Zone. This additional firm capacity will increase the amount of secondary market capacity available, which will lower costs for customers who use the secondary market. As noted at Exhibit B.SEC.5, Attachment 1, pp. 59-60, the level of firm contracts, at the time of introducing the service, into the EDA, Union Northern Delivery Area ("NDA") and Union North Central Delivery Area ("NCDA") (green area) was less than the Firm Contract Demand's ("CD") of customers in those delivery areas (dashed red line). This indicates that customers are relying on secondary markets to meet firm needs. By increasing the level of firm contracts, those customers who did not subscribe for the proposed service and continue to rely on secondary market services will have less competition

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[5] EB-2015-0181, Exhibit A, Tab 3, Appendix B.

for those services and should enjoy the benefits of lower prices. In addition, customers who have increased the level of firm capacity into the Union North East Zone will likely not require the full level of their firm contracts every day, which will increase the level of capacity available to meet secondary market needs.

16. At paragraph 15 of its submission, APPrO states that the ultimate cost responsibility for any unrecovered costs associated with the upstream transportation arrangements has not been allocated in accordance with cost causation and good rate making principles. Union submits that the proposed allocation of the deferral account is fair and equitable because:

- customers which elect to take the service will incur the vast majority of the cost and the commitment;
- customers which do not take the service will benefit from the increase in transportation capacity to the Union North East Zone through lower costs for secondary market services;
- the allocation of the proposed deferral account is analogous to Union North Sales Service and bundled-T customers that share in Unabsorbed Demand Charges ("UDC") even if their actions did not create the need to take UDC; and,
- the North T-Service Transport from Dawn service is available to all Union North T-Service customers, therefore disposing of the deferral account only to those customers that subscribed to the service would be inconsistent with class ratemaking.

17. At paragraph 16 of its submission, APPrO states that a customer "can simply exercise its option to reduce its commitment to Union with no penalty or further cost responsibility for this capacity, to the detriment of other T-Service customers." Union disagrees with this assertion. An end-use customer can only reduce its commitment if its demand drops by 5% or more. The customer that reduces its commitment (unless it was due to plant closure) would still be a North T-Service customer and would still be subject to the deferral account disposal, and therefore, would retain some level of cost responsibility to Union for excess capacity.

18. Union included a number of measures within the proposed service design that will limit the amounts that will accrue to the proposed deferral account:

(a) Customers have the right, but may not need to reduce their commitment to the capacity under this service. For those customers that have chosen to include the North T-Service Transportation from Dawn service as one of many supply options, this may be the least cost option within their portfolio and therefore may choose to maintain their contracted capacity even if their plant needs decrease by 5% or more.

(b) Reductions of commitments to this service can only occur if both the Total Distribution CD and Maximum Hourly Volume ("MHV") parameters decrease by 5% or more. This eliminates the possibility of customer's arbitrarily reducing their North T-Service Transportation from Dawn capacity:

- As the reduction is based on Total Distribution CD, a straight switch between Firm and Interruptible service will not trigger the 5%; and,
- It would not make sense for customers that do not have operating changes to reduce their MHV parameter as this would cause them to incur Overrun at higher levels. Therefore, the customer may choose to reduce their CD, but keeping MHV untouched would also not trigger the 5% level.

19. Based on the above restrictions, Union expects minimal use of the deferral account on an annual basis. In EB-2015-0181 Exhibit B.Staff.9, Union provided examples of a deferral account impact using an extreme example of 3,000 GJ/d of excess capacity. Using a more modest amount of excess capacity of 200 GJ/d, and assuming estimated Parkway to NDA tolls of $0.55/GJ, unmitigated costs would result in $110 accruing in the deferral account per day. When allocated amongst all eligible customers, this would result in an annual impact of $1,095 per customer with a 3,000 GJ/d contract.

20. In Union's submission, the costs of any excess unsold capacity should be allocated to all customers who are eligible for the service given that all customers benefit from the service either directly or indirectly. Union's proposal for a quantity limit of 3,000 GJ/d minimizes the potential financial exposure of unmitigated costs, which was a concern of customers.

IGUA's and APPrO's Submissions Regarding Cancellation Costs Should Be Rejected

21. At paragraphs 29 and 30 of its submissions, IGUA states:

> Union has proposed that should the Dawn-T Service not proceed, for any reason, that costs incurred by Union to develop the service would be paid by those customers who contracted for the service (17 NEDA Rate 20 customers to date), despite the fact that they never get to use the service.
>
> As noted above, Union will benefit from this service. The Dawn T-Service will allow Union's NEDA contract transportation customers to shift volumes from Empress delivery to Dawn delivery. More volumes through Union's Dawn facilities and Dawn-Parkway pipeline will enhance Union revenues and secure Union's transportation and storage business."6

22. These two paragraphs are contradictory. If the Dawn T-Service does not proceed for any reason, then the Union North East Zone contract transportation customers will not be able to shift their volumes from Empress to Dawn, and Union will not benefit from increased volumes through Union's Dawn facilities and the Dawn-Parkway pipeline.

23. In addition, IGUA's argument that *"costs incurred by Union to develop the service"* should be borne by Union is incorrect. In Union's evidence, and in the agreements signed by the Union North East Zone contract transportation customers, Union is only seeking to recover Cancellation Costs that Union would be subject to due to the cancellation of the contracts with TransCanada should the service not proceed. Union's costs to develop the proposed service are managed within Union's Incentive Regulation Mechanism ("IRM") and will not be recovered by Union from the Union North East Zone customers should the service not proceed. However, if Union does not receive approval for the service, as proposed, and Union cancels the North T-Service Transportation from Dawn service contracts with customers, Union will incur costs from TransCanada that are the responsibility of the customers who signed up for the service. Triggering an "Event of Cancellation" with TransCanada would allow Union to terminate the 15-year commitment for the TransCanada capacity from Parkway to the respective delivery areas

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[6] EB-2015-0181, Final Submissions of IGUA dated January 15, 2016, p. 7.

(NDA, NCDA and EDA), but would subject Union to Cancellation Costs as described in the contracts with TransCanada. Union would need to evaluate if the Cancellation Costs would be larger than 15 years of demand charges for the contracts. These costs (the lesser of Cancellation Costs or 15 years of demand charges) would be recovered from the Union North East Zone T-Service customers that subscribed for the capacity.[7]

APPrO's Submission Regarding the Eastern Market Settlement Is Inaccurate

24. At paragraph 29 of its submission, APPrO states that "*excess capacity will also be available in the EDA.*" This is inaccurate. As described at Exhibit B.APPrO.1 b), TransCanada is removing almost 500 TJ/day of capacity from the Eastern Ontario Triangle with the implementation of both the Eastern Mainline Project and the Energy East project. This capacity is largely used in the secondary market today. In addition, as noted at Exhibit B.APPRO.1 d), Union does not believe that the addition of supplies on the proposed Iroquois South to North ("SoNo") project will turn Waddington into a liquid and reliable supply point for customers in the EDA, especially during the winter when demands are highest. The lack of storage and diverse transportation paths to and from Waddington do not make it an ideal liquid market.

25. At paragraph 30 of its submission, APPrO states additional firm capacity of 50,000 GJ/d will be built by TransCanada when it completes the Eastern Mainline Project. As APPrO notes, this capacity is twice that required to meet the subscribed quantity of 22,402 GJ/d by the Union North T-Service Transportation from Dawn service customers. However, this capacity will be available to all parties on a first-come, first-served basis including Enbridge, Gaz Metro, Union and their customers. This capacity is intended to serve new firm loads for a limited period after Energy East is built. Based on estimated growth in the market, 50,000 GJ/d will not meet demand increases for very long.

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[7] EB-2015-0181, Exhibit A, Tab 3, p. 4.

Union's Proposed Service Design and Deferral Account Should Be Approved as Filed

26. Union created the proposed North T-Service Transportation from Dawn service in response to customer requests, and through extensive consultation with all Union North T-Service customers. The service design, as proposed, is a fair balance for all Union North T-Service customers:

(a) Small-volume customers are able to secure supply at Dawn, and firm transportation from Dawn to the delivery area, to meet almost all of their firm demands. It is a seamless, ready to use service;

(b) Large volume customers are able to secure supply at Dawn for all (if subscribing to the Supplement Service) or a portion of their supply portfolio (their choice) and provide them with added diversity;

(c) The ability to adjust commitments to the Base Service volume provides customers with the comfort that, even though they are making a long-term commitment to capacity, there is an ability to match the capacity with plant needs. The restrictions that Union has placed on capacity reductions also provides all Union North East T-Service customers with the assurance that this mechanism cannot be abused as it would result in significant excess capacity being created;

(d) Customers that do not subscribe to the service but still rely on secondary market options to meet their demands will benefit from having added firm pipeline capacity into the delivery areas. This will add supply, and reduce other customers reliance on secondary market options, which will lower costs and result in an overall benefit;

(e) The proposed Base Service North T-Service TransCanada Capacity Deferral Account will be used to record the difference between revenues and costs associated with excess capacity and will be allocated to all T-Service customers in the Union North East Zone according to their Maximum Firm Demand Quantity ("FDQ") Eligible for Base Service. This means that large volume customers exposure will be limited to the maximum FDQ allowed under the Base Service

(3,000 GJ/d) and not their overall Firm CD. Union has multiple ways of mitigating or eliminating any deferral account balance; and,

(f) This is a customer requested and developed service to help them source gas from Dawn and remain competitive.

27. Union submits that the North T-Service Transportation from Dawn service is a fair balance which benefits all Union North East T-Service customers, and requests that it be approved in accordance with Union's application.