

**UNION GAS LIMITED**  
**LEAMINGTON EXPANSION PROJECT**  
**EB-2016-0013**  
**OEB STAFF INTERROGATORIES**  
**March 10, 2016**

**Interrogatory #1**

Ref: Application and Evidence / p. 3

Preamble:

Union noted that it received expressions of interest for 129,097 m<sup>3</sup>/hour of capacity. The proposed Leamington Expansion Project can only provide 51,900 m<sup>3</sup>/hour of firm capacity.

Union noted that it was unable to satisfy all of the requested capacity due to limited capacity on the pipeline system that feeds the proposed project. Union is in the process of reviewing additional projects to reinforce the pipeline system which supplies the proposed facilities.

Question(s):

- a) Please discuss the additional upstream projects that Union is reviewing.
- b) Please provide timelines for when these potential projects could be constructed to provide additional capacity to meet the incremental demand.
- c) Please discuss whether it is Union's intent to construct another Leamington expansion in the future (after the upstream pipeline system has been reinforced).
- d) Please discuss whether there may be any efficiencies achieved by first reinforcing the upstream pipeline system and then sizing the Leamington Expansion Project to meet all current requests for additional capacity.

- e) Please discuss whether the Leamington Expansion Project may result in any additional capacity that Union can sell on an interruptible basis. Please discuss the proposed treatment of any such revenues.

## **Interrogatory #2**

Ref: Application and Evidence / pp. 3, 6-7, Schedule 2 / p.1, and Schedules 8-9

Preamble:

Union noted that it included an estimated cost of \$230/m<sup>3</sup>/hour in the expression of interest package. This charge is multiplied by the total capacity that the customer will require to determine the customer's total contribution.

Union noted that the \$230/m<sup>3</sup>/hour amount was calculated by dividing the original estimated cost of the proposed expansion project (\$11.8 million) by the firm capacity per hour (51,900 m<sup>3</sup>) provided by the project.

Union stated that the customer may elect to pay the total cost upfront (as an aid to construct) or sign a long-term contract or Letter of Agreement. If the customer elects to sign a long-term contract or a Letter of Agreement, the projected future revenue will reduce or eliminate the aid to construct payment. Union noted that the term of the contract or agreement is to be a minimum of one year and up to 10 years.

Union noted that the DCF analysis (which uses the revised total cost for the expansion project of \$14 million - \$12.3 million for the proposed facilities and \$1.7 million for individual distribution facilities to connect the customers) shows a PI of 1.11 and a NPV of \$1.5 million using a revenue horizon of 10 years.

Union noted that it used a conservative revenue term of 10 years given the economic life of the assets and the current and future demand for new gas service in the market.

Question(s):

- a) Please explain why a revenue term of 10 years was used in the DCF analysis completed for this expansion project when a revenue term of 14 years was used for the Leamington Phase I Project (EB-2012-0431).
- b) Please explain how Union calculated the forecasted revenues used in the DCF analysis. Please provide the assumptions used in the revenue forecast (including the incremental volumes by rate class and the rates used in the analysis). Please

also discuss whether Union included any revenues from interruptible services in the revenue forecast.

- c) Please explain why there is a requirement for an aid to construct payment when the DCF analysis shows a PI of 1.11 in the absence of capital contributions.
- d) Please explain the proposed accounting treatment for any aid to construct payments collected related to this project. Please contrast this proposed approach to the treatment applied to capital contributions required to make an expansion project financially feasible.
- e) Please provide generic copies, including the terms and conditions, for the proposed long-term contract and Letter of Agreement that Union will require customers to sign in order to avoid (or reduce) aid to construct payments.
- f) Please discuss any differences between the proposed long-term contract and the Letter of Agreement.
- g) Please discuss whether Minimum Annual Volume (MAV) requirements will be established by Union in each customer's contract. If so, please discuss how the MAV requirement will be set. If not, are customers granted the option to set their own MAV or are there no MAV requirements?
- h) Please explain why Union will require customers to sign a long-term contract (or a Letter of Agreement) in the absence of making an aid to construct payment.
- i) OEB staff would like to better understand how long-term contracting operates to eliminate (or reduce) the aid to construct payment.
  - i. Please confirm that if a customer does not sign a contract they will be required to pay their entire portion of the project cost in an aid to construct payment. Also, please indicate whether this would be paid as a lump sum payment or if Union plans to offer payment flexibility.
  - ii. Please explain the relationship between long-term contracting and the required aid to construct payment. Please provide a table that includes a number of examples (along with supporting calculations) that use a set of assumptions (e.g. rate class, contracted capacity, contracted volumes, load factor, etc.) to depict the aid to construct payment required if a customer does not sign a contract, or signs a 1-year, 5-year or 10-year

contract. Please clearly indicate the assumptions made. Please also provide the total cost to the customer (including both the aid to construct payment and distribution charges) under these scenarios.

- iii. Please explain the perceived benefits and disadvantages, from a customer's standpoint, of paying for the service by means of an aid to construct payment, or opting to sign a contract of 1-year, 5-years, or 10-years (with a reduced or eliminated aid to construct payment) with Union.
  - iv. If a customer opted for a 5-year contract with Union, what happens at the expiry of the contract?
- j) Please advise whether customers will be responsible to pay their own individual distribution facility costs as part of an aid to construct payment. If so, please advise whether this would be in addition to the \$230/m<sup>3</sup>/hour charge calculated for the project. If not, please explain how the individual distribution facility costs will be recovered.
- k) Please answer the questions that follow in the context of this scenario:

Union performs a DCF analysis for an expansion project similar to the Leamington Expansion Project. The results of the DCF analysis are exactly the same for this new expansion project (PI of 1.11 with no capital contribution included in the analysis). The new expansion project will serve a different subset of commercial/industrial customers (not the greenhouse market).

- i. Would Union require an aid to construct payment from these commercial/industrial customers that take firm capacity?
- ii. Would Union require these commercial/industrial customers that take firm capacity to sign long-term contracts or a Letter of Agreement?
- iii. If the answer is no to either of the above questions, please explain why the customers seeking capacity from this expansion project are required to make an aid to construct payment or sign a long-term contract (or Letter of Agreement).

### **Interrogatory #3**

Ref: Application and Evidence / p. 3

Preamble:

Letters of indemnity were signed in November and December 2015 to confirm the volumes that each customer has accepted. The letters of indemnity will form the basis of the contracts to be signed with the customers. Contracts are expected to be signed by February 29, 2016. If any customers do not sign a contract a third proration exercise will be completed.

Question(s):

- a) Please confirm that the contracts have been signed as expected. If not, please provide details regarding the outcome of the third proration exercise and advise whether customers have signed contracts for their revised capacity assignments.
- b) Please advise whether any customers opted to make an aid to construct payment.
- c) Please provide a range for: (i) the duration of the contracts signed; and (ii) the contracted MAV (if applicable).

### **Interrogatory #4**

Ref: MTCS Letter on the Environmental Report / p. 2

Preamble:

The Ministry of Tourism, Culture and Sport advised that the Criteria for Evaluating Potential for Built Heritage Resources and Cultural Heritage Landscapes as provided in the Environmental Report for this project does not encompass the full footprint of the project and requires re-submission.

Question(s):

- a) Please describe the steps that Union has taken, or will take, to address the MTCS's concerns.

## **Interrogatory #5**

Ref: Application and Evidence / p. 11

Preamble:

Union noted that it submitted a copy of the Environmental Report to the Ontario Pipeline Coordination Committee (OPCC), local municipalities, the Essex Region Conservation Authority, First Nations and Métis.

Union stated that a summary of the comments and Union's response to concerns from agencies and interested parties will be filed, when received, as Schedule 13.

Question(s):

- a) Please file a summary of comments and concerns received to date and Union's responses and planned actions to mitigate and address each of the concerns.
- b) Please advise when Union anticipates that it will file a final summary of comments and responses.

## **Interrogatory #6**

Ref: Application and Evidence / pp. 12-13, Schedule 17

Preamble:

Union stated that the proposed project will be constructed on private easement lands, road allowances and an abandoned railway corridor owned by the Municipality of Leamington.

Union stated that it will be required to obtain the necessary crossing permits or agreements with local municipalities, the conservation authority, and other utilities along the pipeline route.

Union included the form of easement in its application. Union noted that the form of easement will be provided to all new landowners where permanent easements are required.

Question(s):

- a) Please advise whether Union has all the necessary permits and land rights for the location and construction of the pipeline at this time. If not, please provide the anticipated timeline for obtaining the necessary permits and land rights for location and construction of the pipeline.
- b) Please provide any details regarding ongoing negotiations for the required permits and land rights.
- c) Specifically, please discuss the status of the negotiation with the Municipality of Leamington for the use of the abandoned railway corridor.
- d) Please advise whether the form of easement is consistent with previous forms approved by the OEB? If not, please discuss the proposed changes.
- e) Please confirm that the form of the easement agreement provided in the evidence has been offered or will be offered to all of the private landowners from whom easements are required.
- f) What are the differences, if any, between a form of easement agreement offered to private landowners and a form offered to a municipality? If there are any differences, please provide, if available, the agreement that will be offered to the Municipality of Leamington.

## **Interrogatory #7**

Ref: Application and Evidence / pp. 14-15

Preamble:

In its application, Union described the consultation process undertaken with the First Nation and Métis. Union noted that no issues had been brought forward regarding the project at the time that it filed its application. Union also noted that it is not expecting any issues to be brought forward by the First Nation and Métis due to the location and specifics of the project.

Question(s):

- a) Please confirm that no issues have been raised by the First Nation or Métis related to the proposed expansion project at this time.

## **Interrogatory #8**

Ref: Application and Evidence / p. 1

Preamble:

Union applied for an OEB order, under Section 90(1) of the OEB Act, for leave to construct the proposed Leamington Expansion Project.

Question(s):

- a) Please advise whether Union has any concerns with the draft Conditions of Approval set out below. Please identify any specific concerns and provide an explanation for those concerns.



**Leave to Construct Conditions of Approval**  
**Application under Section 90 of the OEB Act**

**Union Gas Limited**

**EB-2016-0013**

1. Union Gas Limited (Union) shall construct the facilities and restore the land in accordance with the OEB's Decision and Order in EB-2016-0013 and these Conditions of Approval.
2. (a) Authorization for leave to construct shall terminate 12 months after the decision is issued, unless construction has commenced prior to that date.  
  
(b) Union shall give the OEB notice in writing:
  - i. of the commencement of construction, at least ten days prior to the date construction commences;
  - ii. of the planned in-service date, at least ten days prior to the date the facilities go into service;
  - iii. of the date on which construction was completed, no later than 10 days following the completion of construction; and
  - iv. of the in-service date, no later than 10 days after the facilities go into service.
3. Union shall implement all the recommendations of the Environmental Report filed in the proceeding, and all the recommendations and directives identified by the Ontario Pipeline Coordinating Committee review.
4. Union shall advise the OEB of any proposed change to OEB-approved construction or restoration procedures. Except in an emergency, Union shall not make any such change without prior notice to and written approval of the OEB. In the event of an emergency, the OEB shall be informed immediately after the fact.
5. Union shall file, in the proceeding where the actual capital costs of the project are proposed to be included in rate base, a Post Construction Financial Report, which shall indicate the actual capital costs of the project and shall provide an explanation for any significant variances from the cost estimates filed in this proceeding.
6. Both during and after construction, Union shall monitor the impacts of construction, and shall file with the OEB one paper copy and one electronic (searchable PDF) version of each of the following reports:
  - a) a post construction report, within three months of the in-service date, which shall:

- i. provide a certification, by a senior executive of the company, of Union's adherence to Condition 1;
  - ii. describe any impacts and outstanding concerns identified during construction;
  - iii. describe the actions taken or planned to be taken to prevent or mitigate any identified impacts of construction;
  - iv. include a log of all complaints received by Union, including the date/time the complaint was received, a description of the complaint, any actions taken to address the complaint, the rationale for taking such actions; and
  - v. provide a certification, by a senior executive of the company, that the company has obtained all other approvals, permits, licences, and certificates required to construct, operate and maintain the proposed project.
- b) a final monitoring report, no later than fifteen months after the in-service date, or, where the deadline falls between December 1 and May 31, the following June 1, which shall:
  - i. provide a certification, by a senior executive of the company, of Union's adherence to Condition 3;
  - ii. describe the condition of any rehabilitated land;
  - iii. describe the effectiveness of any actions taken to prevent or mitigate any identified impacts of construction;
  - iv. include the results of analyses and monitoring programs and any recommendations arising therefrom; and
  - v. include a log of all complaints received by Union, including the date/time the complaint was received, a description of the complaint, any actions taken to address the complaint, the rationale for taking such actions.