EB-2016-0186

ONTARIO ENERGY BOARD

Union Gas Limited

Application for approval to construct a natural gas pipeline in the Township of Dawn Euphemia, the Township of St. Clair and the Municipality of Chatham-Kent and approval to recover the costs of the pipeline

ARGUMENT

of

INDUSTRIAL GAS USERS ASSOCIATION (IGUA)

1. On behalf of IGUA, we have been greatly assisted in our consideration of Union's application for approval of the Panhandle expansion by the diligent and informed work of Mr. Wolnik for APPrO and Mr. Quinn for FRPO. We have reviewed draft arguments provided to us on behalf of both of these parties. IGUA largely supports the work, and positions, of these two intervenors.

2. That work indicates to us, and we submit should lead the Board to conclude, that Union has <u>not</u> discharged its onus of demonstrating that the $265 million build that it is proposing is the best, or even an appropriate and prudent, alternative to provide gas distribution service to customers in the "market area" served by the existing Panhandle system.

3. As exemplified below, and elaborated on in the submissions of APPrO and FRPO, there remain significant gaps in the record in respect of feasible and prudent alternatives.

4. ***IGUA therefore concludes that the Board should deny Union's application.***

5. Given the extensive and strong work done on behalf of APPrO and FRPO, we are in a position to largely rely on their submissions in respect of alternatives to the proposed project. Having worked alongside the representatives for these parties throughout the proceeding, and having reviewed drafts from each of

these parties of their final submissions, in the interests of efficiency this argument on behalf of IGUA will not attempt to simply echo those submissions. Rather, the comments that follow are intended to provide the Board with a general perspective on why IGUA has drawn the conclusions that it has on the merits of this application at this time.

Benefits vs. Costs

6. Union has asserted that absent approval of the Panhandle facilities proposed, or some facilities alternative as, or more, expensive than the facilities proposed, Union will be unable to connect any new customers - greenhouse, other contract, or residential - as of November 2017.

7. Union asserts that it requires 58 Tj/day of incremental capacity as of November, 2017, and that it will require 106 Tj/day of incremental capacity to connect new customers forecast between November, 2017 and sometime in the first quarter of 2022.[1]

8. This assertion overstates the "urgency" of the need.

9. To start with, 46 Tj/day of the initial (winter 2017/18) demand cited by Union appears to be demand from <u>existing</u> Union customers, currently on interruptible service and seeking firm service. That is;

    (a) these customers already have, or will have, gas service, on an interruptible basis;

    (b) only on a design day would these customers be faced with an interruption of service, and then only for a brief period of interruption; and

    (c) these customers either have, or have planned for, backup supply should they be interrupted. They will not (unless through their own lack of prudence) be left without heat, or an alternative fuel or other response plan.

10. There is actually, at <u>most</u>, <u>12</u> Tj/day of demand forecast for winter 2017/18 which Union is not currently in a position to serve.

11. The forecast for the winter 2018/19 is an additional 15 Tj/day, at <u>most</u>, which Union is not in a position to serve.

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[1] In this argument we will refer to the very helpful, and fully referenced, summary constructed by Mr. Wolnik and included as Schedule 1 to APPrO's Final Submissions. In respect of Union's asserted capacity requirements, see lines 19 through 23 of APPrO's Schedule 1.

12. We say "at most", assuming that 100% of this incremental demand requires firm service.

13. We also note that none of the forecast contract customers, representing 23 Tj/day of design day demand, have signed contracts. Nor, for that matter, have the currently interruptible customers representing 46 Tj/day of the forecast near term load.

14. The magnitude of the immediate new customer supply constraint appears to be significantly less than Union has sought to assert, though precisely how much less is not immediately evident. (This is one of the gaps in the record as it currently stands.)

15. Further, despite the "need" for this project being recognized by Union as early as 2012, Union has not in fact obtained any contract commitments for the capacity that it asserts is urgently required. In the result, there is a lack of evidence supporting Union's assertion that the need for additional capacity is as urgent as Union has represented.

16. On the other hand, Union proposes to immediately invest $265 million in order to serve, on a firm basis, up to 12 Tj/day of new load during the 2017/18 winter, and up to a further 15 Tj/day of new load during the winter of 2018/19.

17. On the other hand, the impact on existing Union South T2 customers of Union's proposal is rate increases of 20%.[2]

18. The $25 million net revenue requirement that would be driven by the project in 2018 is in contrast to incremental fuel costs to currently interruptible customers (seeking firm service) in the order of $4 million - $5 million (on average).[3]

19. The cost/benefit balance of Union's proposal, as between customers currently facing short interruptions under potential design day conditions for which they have (or should have) back up plans, on the one hand, and existing customers, on the other, seems to IGUA to be out of appropriate proportion.

20. Such proportionality is a matter which the Board should consider pursuant to its objective to *"protect the interests of consumers with respect to prices"* for gas service in evaluating whether Union has properly considered viable, and potentially less expensive, alternatives.

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[2] Ex. A/T8/p. 22.

[3] Ex. JT1.14.

Appropriate Consideration of Alternatives?

21. Consideration of the cost/benefit balance of Union's proposal highlights the imperative that the Board consider whether Union has appropriately considered alternatives to the proposed project.

22. Again, the careful work on behalf of APPrO and FRPO indicates that there appears to be sufficient capacity and interest in immediately implementable Ojibway supply solutions to address all of the incremental demand forecast by Union in support of its proposed project for at least the next two winters (2017/18 and 2018/19).

23. Further, if the currently interruptible load that Union asserts seeks conversion to firm does not in fact commit to such conversion by contracting for it, which it has not done to date, there appears to be more than enough capacity and interest in Ojibway committed deliveries to satisfy the entire forecast incremental general service and contract load in the market area.[4]

24. Union asserts that the Ojibway committed supply alternative is impractical. However, careful consideration of the evolution of the record on this topic calls into question the veracity of Union's assertion.

25. Examples of the significant gaps which developed, and to a significant extent remain, in the record on this topic include:

    (a) The oft repeated reference by Union to the limit posed by the "presidential permit" held by Pandhandle Eastern for export to Canada through Ojibway. Apart from the fact that this permit can be changed, APPrO's analysis appears to demonstrate that this is a complete "red herring". Panhandle Eastern's presidential permit limit of 208 Tj/day[5] is well in excess of the incremental capacity that Union asserts it requires during the forecast period.

    (b) The repeated insistence by Union that the Windsor market, where all of the Objibway imported gas must be consumed, can only handle 115 Tj/day of supply. In fact, that is the summer minimum demand, and is only relevant if one assumes that any Ojibway committed delivery solution requires Union to contract for Ojibway supply on a year round basis. That is not, of course, how Union must, or does, manage its gas supply.

    (c) Through the proceeding focus was shifted to the 140 Tj/day minimum winter demand in the Windsor market. Apart from the fact that the more relevant minimum winter demand in the Windsor market significantly

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[4] APPrO Schedule 1.

[5] APPrO Schedule 1, line 1.

exceeds 106 Tj/day asserted capacity requirement over the planning period, it remains unclear to us (another gap in the record) why Union's options are constrained to minimum market area demand in any event, and precisely why, even if the 140 Tj/day is a true limit (which we are not persuaded it is), that is insufficient to address the market area need.[6]

(d) Union has expressed concern that significant incremental Ojibway landed supply would compromise the diversity and flexibility of its gas supply plan. This assertion has not been examined in the context of the market impacts of the power pipeline, or the fact that Union really only needs to address design day supply (not year round supply).

(e) Despite repeated evidence (pre-filed and in response to interrogatories) that there was no additional Panhandle Eastern capacity available to Union, literally on the eve of the conclusion of the hearing Union was directed to file evidence which clearly indicates that:[7]

(i) There is ample Panhandle Eastern capacity available[8].

(ii) While much of that capacity is contracted to Rover shippers, those shippers are eager to get gas to Dawn.[9]

(iii) Union has failed to undertake any legitimate exploration of commercial alternatives to contracting obligated deliveries through Ojibway to address design day, or at a minimum winter, requirements in the market area.[10]

IGUA Concerns and Position on Project Approval

26. These and other inconsistencies and gaps in the record concern IGUA, in particular in light of the significant impact on rates for existing Union south customers of the proposed project.

27. The apparent lack of full and clear disclosure and analysis indicates to us that there is more to this story than the record currently provides.

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[6] We refer the Board to FRPO's analysis in this respect.

[7] Ex. K2.1, pp 4-5.

[8] APPrO Schedule 1 and associated analysis as advanced by APPrO and FRPO.

[9] Trans. Vol. 2, p. 212, line 16 through page 216, line 20 and Ex. K2.2, pp. 12 et seq]

[10] We will not repeat, but refer to and rely on, the analysis on this point advanced by APPrO in its Final Submissions.

28. Further, the significant rate impacts would, if they materialize, exacerbate;

(a) significant rate increases already driven by very substantial facilities investments on Dawn-Parkway system expansion, the impacts of which are just beginning to be reflected in delivery rates; and

(b) significant cost implications of Ontario's cap and trade program, which will start to appear on gas bills, and otherwise in energy costs (for Large Final Emitters) effective January 1, 2017.

29. IGUA respectfully submits that in this climate of significant upward pressure on delivered natural gas costs, it is particularly imperative that the Board very carefully consider the impact of the proposed project on the price of natural gas service in Union South, and the costs and viability of alternatives to the project.

30. The Board should further consider that the interests of Union's shareholder lie squarely in support of;

(a) building facilities (which results in increased earnings, rather than cost pass through for contracting for services);

(b) increasing reliance on Dawn as a market hub; and

(c) <u>not</u> going out of the way to support Rover, as a project competing with Nexus (for which Union has already contracted long term and in which Union's parent company has a significant financial interest).

31. IGUA is <u>not</u> asserting that Union has acted inappropriately. However, the foregoing circumstances warrant very careful consideration of whether Union has adequately considered and evidenced the viability, or lack thereof, of commercial alternatives to the significant build proposed.

32. IGUA is concerned that there is insufficient evidence to indicate that such consideration has in fact been careful, and there is evidence suggesting that it has not been thorough.[11]

33. ***It is IGUA's position that Union has <u>not</u> discharged its onus of demonstrating that the $265 million build that it is proposing is the best, or even an appropriate and prudent, alternative to provide gas distribution service to customers in the "market area" served by the existing Panhandle system, and accordingly that Union's application should be denied.***

[11] Again, IGUA refers to the Final Submissions of APPrO and FRPO which canvass the details of the record on these topics.

Accelerated Depreciation

34. The accelerated depreciation proposed by Union for the project would exacerbate an already significant rate impact from the proposed build.

35. Union has conceded that;

    (a) the risk which it perceives and seeks to address by its proposal for accelerated depreciation manifests only in the longer (15 year plus) time frame, and not over the planning period supporting this project; and

    (b) full and broader consideration of the risk which it perceives and seeks to address by its proposal for accelerated depreciation will be undertaken in the context of its upcoming rebasing application, the supporting evidence for which will be filed later in 2017.

36. IGUA submits that between now and a decision by the Board on Union's 2019 rates, not only will the broader implications of accelerated depreciation have been properly considered, but it is likely that there will be more information available to the Board on Ontario's climate change action plans (including through a concluded 2017 Long Term Energy Plan), than is currently the case.

37. Therefore, should the Board approve Union's proposed Panhandle expansion project, IGUA submits that the Board should deny, at this time, approval of accelerated depreciation of that project, pending a more comprehensive consideration of the issues engaged in the context of Union's 2019 rebasing application.

Cost Allocation

38. Union has proposed that the incremental costs of the proposed Panhandle expansion project be afforded a cost allocation treatment different from that afforded to the existing Panhandle/St. Clair system costs.

39. Those existing costs, being relatively equal as between the two systems, are pooled and allocated across all customers utilizing either system.

40. Since the costs of the proposed Panhandle expansion project would render total Panhandle system costs significantly larger than total St. Clair system costs, Union is proposing to allocate the incremental Panhandle system costs to users of the Panhandle system, based on the design day demands placed on that system.

41. IGUA submits that Union's proposed allocation of Panhandle expansion project costs is in accord with the principle of allocating costs in line with benefits realized.

42. Therefore, should the Board approve Union's proposed Panhandle expansion project, IGUA submits that the Board should accept Union's proposal for allocation of the associated incremental Panhandle costs.

ALL OF WHICH IS RESPECTFULLY SUBMITTED by:

GOWLING WLG (CANADA) LLP, per:
Ian A. Mondrow
Counsel to IGUA

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