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December 14, 2016

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
26th Floor
2300 Yonge Street
Toronto, ON
M4P 1E4

DELIVERED BY EMAIL

Dear Ms. Walli,

RE: Board File No. EB-2016-0186 Union Gas Limited ("Union") Panhandle Reinforcement Project

Please find enclosed the submissions of the Ontario Greenhouse Vegetable Growers in the above noted proceeding.

Yours very truly,

Michael R. Buonaguro

CC: All Parties

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Schedule B (the "Act");

AND IN THE MATTER OF an Application by Union Gas Limited pursuant to s. 90(1) of the Act for an Order or Orders granting leave to construct natural gas pipelines and ancillary facilities in the Township of Dawn-Euphemia, Township of St. Clair and the Municipality of Chatham-Kent;

AND IN THE MATTER OF an Application by Union Gas Limited pursuant to s. 36 of the Act for an Order or Orders for pre-approval of recovery of the cost consequences of all facilities associated with the development of the natural gas pipeline and ancillary facilities referred to as the Panhandle Reinforcement Pipeline Project.

Submissions of the Ontario Greenhouse Vegetable Growers

December 14, 2016

INTRODUCTION AND SUMMARY

The Ontario Greenhouse Vegetable Growers ("OGVG") has intervened in this proceeding to express its support for the sorely needed increase in capacity on the Union Gas Limited ("Union") Panhandle Transmission System (the "Panhandle Union" system). As described in its letter filed in this proceeding, the burgeoning agricultural industry served by the Panhandle Union system is one of the several sectors in the area that is critically dependent on adequate and reliable natural gas infrastructure:

> *OGVG represents approximately 200 greenhouse vegetable growers in Ontario who are responsible for 2,700 acres of greenhouse tomato, pepper, and cucumber production in the province. The majority of this acreage, 2,427 acres, is located in Essex, Chatham-Kent and Lambton counties. Ontario's greenhouse sector has a consistent track record of growth, expanding at 5.8% annualized over the past 8 years. We expect this growth will continue into the future and predict the sector could grow by 750 acres over the next 5 years, contributing an additional $1.3 billion to the Ontario economy and supporting over 3,000 new jobs.*
>
> *In order for this growth and development to be realized sufficient access to natural gas infrastructure will be required. Currently, resources in the Essex and Chatham-Kent regions are at capacity and an expansion of service will be necessary in order to support further economic development in the region. Furthermore, many growers in the region are on interruptible service contracts as firm service is not currently available. Increased access to firm service, such as will be provided by this expansion, will greatly add to the stability of production economics as growers will not be required to purchase alternative fuel during periods of peak market demand.*[1]

Without an immediate and significant increase in the availability of firm natural gas capacity OGVG is concerned that the continued growth in the agricultural industry in the area served by the Panhandle Union system will be adversely affected. As noted by Union in its evidence in support of its application the delay in the increase in service has likely, OGVG respectfully submits, contributed to the diversion of investment in the area, with two greenhouse operations already choosing to invest outside of Ontario with others considering whether to follow suit:

> *Within the last 18 months there are two operations that have chosen to expand in Ohio, rather than in the Leamington area.*
>
> *NatureFresh Farms has indicated they will spend $250 million to develop 175 acres in Ohio. Just over 15 acres is in production today and 45 acres will be producing product by the end of 2016.*

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[1] EB-2016-0186, Exhibit A Tab 5 Schedule 2 page 5.

GoldenFresh is currently building 20 acres as phase 1 of a 4-phase plan. The current plan is to build 100 acres over 7 to 10 years.

Union's Greenhouse Account Managers have been informed by two other greenhouse operators that they are reviewing Ohio as a possible location to expand their operations.[2]

Accordingly OGVG respectfully requests that the Board grant Union Leave to Construct the Proposed Facilities, as it is clearly in the public interest that the capacity on the Panhandle Union system be increased in order to serve the short, medium and long-term demand for firm natural gas service in the affected area.

OGVG has organized its submissions strictly in accordance with the Board's approved issues list.

Are the Proposed Facilities needed?

The need to increase the capacity on the Panhandle Union system was bluntly and succinctly summarized by Union in its statement to the Board at the outset of the oral hearing:

Beginning the winter of 2017/2018, there is no pipeline capacity available to attach firm in-franchise customers in the areas served by Union's Panhandle Transmission System. Union is already having to say "no" to incremental firm load growth requests from contract rate customers and, without the Proposed Facilities, will need to refuse service requests from general service customers, including residential customers.

Union has significant unfulfilled demand for firm service on the Panhandle System. In addition to existing unfulfilled demand, Union has received incremental requests for firm service since this Application was filed with the Board. The demand for firm service comes from all market segments and geographic areas across Union's Panhandle System. Union is in the process of contracting for the forecasted 2017 contract rate class demand and already has indications of further strong demand for 2018.[3]

The need for increased capacity on Panhandle Union is not sudden or unexpected, particularly from the perspective of OGVG. Greenhouse operations that are or should be served by the Panhandle Union system have waited for and supported expanded capacity for several years. As Union's evidence and argument sets out, the demand for firm capacity spans all customer types and classes, and is located across the area the served by the Panhandle Union system; OGVG relies on the evidence and argument by Union establishing the demand for firm natural service across the various customer types and classes, and makes the following additional submissions to provide further context for the unmet demand from customers represented by OGVG.

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[2] EB-2016-0186 Exhibit B.BOMA.5 b)
[3] Exhibit K1.4, page 1.

Need in the context of greenhouse operations

On November 23, 2012 Union filed for leave to construct what is referred to as the Leamington Phase 1 Project (EB-2012-0431), an $8.3M distribution project designed to meet the growing demand for additional firm and interruptible service within the area served by Panhandle Union. That application represented the first step towards providing needed capacity, relieving some of the distribution related constraints in the affected area so that Union could access excess firm capacity on Panhandle Union.

The original Leamington Phase 1 Project Application was underpinned by contracts with 15 customers intended to provide firm service to approximately 171 acres of greenhouse operations.[4] At that time Union contemplated a requirement of a $2M up front Aid to Construct from customers in order to support the project economics.

However, by the time Union made its final submissions in support of the application, the demand for firm service had increased significantly, allowing Union to increase the number of contracts for firm service underpinning the project from the original 15 contracts to 35 contracts, with an increase in the number of acres connected to firm service as a result of the project from the original 171 acres to 406 acres, an increase in contracted firm demand of approximately 237% in less than 4 months.[5] The massive increase in contracted for firm service utilizing the newly released capacity from the Leamington Phase 1 Project obviated the need for an up front Aid to Construct payment prior the project proceeding.

Following the Leamington Phase 1 Project there remained unmet demand for firm service from customers being served (and customers that could be served) by the Panhandle Union system; hence the need for the Leamington Phase 2 Project, a $12.3M distribution project for which leave to construct was filed on January 14, 2016 in EB-2016-0013. The Leamington Phase 2 Project further eliminated distribution level constraints, allowing customers in the area to access unutilized firm capacity on Panhandle Union.

As has been noted by Union its evidence and argument, the demand for firm service on the Leamington Phase 2 Project far outweighed the available capacity. As of the expression of interest supporting the project in the fourth quarter of 2015, 62 different customers representing 73 separate locations sought firm service totaling 129,027 m3/hour, equivalent to a request for firm capacity of approximately 80 TJ/day.[6]

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[4] EB-2012-0431, Application Schedule 3; OGVG notes that at the time of the application Union expressed the capacity of the Proposed Facilities in terms of number of acres of greenhouse operations the project could support.
[5] EB-2012-0431, Reply Submission of Union Gas, March 8, 2013, Attachment #1.
[6] EB-2016-0186, Exhibit A Tab 5 page 7.

Unfortunately the available new firm capacity resulting from the Leamington Phase 2 Project was only 32 TJ/day, leaving approximately 48 TJ/day of unmet demand for firm service as of the fourth quarter of 2015. In addition, as noted by Union, no single customer actually obtained the full amount of firm capacity they required; each customer actually taking service was allocated approximately 44% of the firm capacity they actually needed, leaving all interested customers having to operate with no firm capacity for approximately 54% of their operations.[7]

During the course of the Leamington Phase 2 Project Application Union was asked by way of interrogatory why it was that the Proposed Facilities were unable to meet the tremendous demand for firm capacity. Union explained that the constraint on firm capacity in the affected area, after the Leamington Phase 2 Project was operational, was upstream of the local distribution system, and that Union would be seeking leave to construct additional transmission level facilities in order to increase the upstream capacity.[8]

In summary, greenhouse growers have been seeking firm capacity from the Panhandle Union system as early as 2012. Union has sought to meet that demand, maximizing the unused firm capacity of the Panhandle Union system by having greenhouse growers underpin approximately $20M in distribution related capital investment from 2013 to 2016. However, material demand for firm capacity remains unmet as a result of transmission constraints on the Panhandle Union system. Accordingly OGVG and its members are now dependent on the result of this Application for the future growth of their industry in Ontario.

Do the Proposed Facilities meet the OEB's economic tests as outlined in the Filing Guidelines on the Economic Tests for Transmission Pipeline Applications, dated February 21, 2013, as applicable?

OGVG agrees with Union's evidence and submissions to the effect that the Proposed Facilities meet the OEB's economic tests as applicable.

What are the potential short-term and long-term rate impacts to customers? Are these costs and rate impacts to customers appropriate?

OGVG does not have any general concerns about the level of the proposed bill impacts resulting from the proposed project. However OGVG does have submissions to make with respect to the proposal to deviate from the Board's approved depreciation rates.

Proposed Deviation from Board Approved Depreciation Rates

OGVG respectfully submits that the Board should not approve Union's requested deviation from the depreciation rates previously approved for Union for the 2013 rate year in EB-2011-0201. Any proposal to deviate from the depreciation rates approved in EB-2011-0201 for the purpose of determining the recoverable revenue requirement related to any

[7] EB-2016-0013, Application page 3.
[8] EB-2016-0013, Board Staff.1 a), OGVG.1 b).

aspect of Union's depreciable rate base should be considered, in OGVG's view, during the course of Union's next rebasing application scheduled for the 2019 rate year.

Pursuant to the decision in EB-2013-0202 approving an IRM framework for Union for the years 2013-2018, Union has the ability to recover the net revenue requirement in relation to capital projects as a Y factor as long as those capital projects meet the criteria for the approved Capital Pass Through Mechanism.

Union is seeking to recover costs related to the Proposed Facilities through the capital pass through mechanism for the years 2017 and 2018, the two years of the current IRM period during which the Proposed Facilities are planned to be in-service.

Further to the framework approved in EB-2013-0202:

> *The criteria that must be met for any capital project to quality for Y factor treatment are as follows:*
>
> i) *A minimum increase, or a minimum decrease, of $5 million in net delivery revenue requirement for a single new project (the "Rate Impact Threshold"). For the purposes of making this determination, capital costs are those costs relating to that capital project as defined under the applicable accounting rules. The net delivery revenue requirement associated with a capital project for any given year is the costs associated with incremental operating and maintenance expenses, depreciation expense, municipal property taxes expense, incremental long-term debt costs, and required return and income taxes net of any incremental delivery revenues arising from, associated with, or enabled by the project. 1 Should the net delivery revenue requirement exceed the Rate Impact Threshold in any year, the project would meet the Rate Impact Threshold criterion. The rate adjustment for each year would be based on the forecast net delivery revenue requirement impacts for each specific year, subject to true-up to actual as discussed in section (viii) below.*[9] *(emphasis added)*

As set out in the extract above, the Rate Impact Threshold requires that the "net delivery revenue requirement" for the project exceed $5 million. Furthermore, the recoverable rate adjustment for each year is based on the forecast "net delivery revenue requirement" for each specific year.

The term "net delivery revenue requirement" is defined in the framework:

> *To determine the net delivery revenue requirement for any year, the following parameters would be applied:*

- *Depreciation expense would be calculated using the 2013 Board-approved*

[9] EB-2013-0202 Exhibit A Tab 1 pages 31-32.

depreciation rates;

- *The required return would assume a capital structure of 64% long-term debt and 36% common equity;*
- *The incremental long-term debt cost would be calculated based on expected financing costs for the incremental borrowing required by the project, at market rates in effect at the time the project is approved;*
- *The return would be calculated using the 2013 Board-approved return on equity of 8.93%;*
- *The income and other taxes related to the equity component of the return would be calculated using the 2013 Board-approved tax rate of 25.5%;*
- *The incremental delivery revenues associated with the project would be calculated as an offset to the delivery revenue requirement;*
- *For the in-service year, all components of the calculation except taxes (but including, without limitation, depreciation, cost of debt, and return) would be calculated only for the period from the month of in-service to the end of the year; and,*
- *These parameters would not change during the IRM term.*[10] *(emphasis added)*

As set out in the framework, the net delivery revenue requirement is specifically calculated on the basis of the 2013 Board-approved depreciation rates, and those rates are not to change during the IRM term. Accordingly Union is not permitted, through the capital pass through mechanism, to recover costs associated with a capital project that are calculated using any depreciation rates other then those approved for the 2013 Base Year in EB-2011-0201.

Put succinctly, Union's position that the use of 2013 Board approved depreciation rates is only required when considering the Rate Impact Threshold is incorrect; the use of 2013 Board approved depreciation rates is also required when determining the rate adjustments related to the capital project.

Accordingly, OGVG respectfully submits, Union's request to recover $4.768M in net delivery revenue requirement for the project for 2017 and $25.607M in net delivery revenue requirement in 2018[11] is impermissible under the terms of the applicable IRM framework. Under the applicable IRM framework, Union is only permitted to recover the forecast 2017 net delivery revenue requirement of $.1M and the forecast 2018 net delivery revenue requirement of $16.105M based on the use of the 2013 Board approved depreciation rates.[12]

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[10] EB-2013-0202 Exhibit A Tab 1 pages 32-33.

[11] Exhibit A Tab 8 Schedule 1 sets out the 2017 and 2018 net delivery revenue requirements using the proposed new depreciation rates.

[12] Exhibit A Appendix B Schedule 1 sets out the 2017 and 2018 net delivery revenue requirements using the 2013 Board approved depreciation rates. OGVG recognizes that those recoveries are subject to true up under the IRM framework, but notes that the true up also relies on the defined term "net delivery revenue requirement" such that the true up would not capture deviations in the applicable depreciation rate.

OGVG notes that it is, it would seem, theoretically possible for the Board to approve new depreciation rates for Union for the Proposed Facilities going forward even though Union is not permitted to recover the impact of those new depreciation rates through the capital pass through mechanism. Doing so would result in Union foregoing the difference between the newly approved depreciation rates and the Board approved depreciation rates until the 2019 rate year, a loss of approximately $14.17M.

OGVG respectfully submits that there is no pressing reason to approve new depreciation rates for the Proposed Facilities prior to 2019, particularly when doing so causes a loss to Union of over $14M. Union has asserted that it intends on exploring the issue of the applicable depreciation rates for all of its assets in view of the possible impacts of government policy on the future of natural gas related infrastructure, including the applicable rate for the Proposed Facilities in the event the Board does not allow the proposed new depreciation rates in this application.[13] In OGVG's view it would be much more appropriate to explore the need to adjust the depreciation rates for all of Union's depreciable assets at the same time and, as it happens, after the implications of government policy on the long term use of natural gas (and the possible long-term use of the existing infrastructure for other purposes, including the transmission and distribution of renewable natural gas) in the province are more fully understood.

Proposed Deviation from Board Approved Cost Allocation

OGVG has no submissions to make with respect to the changes in the allocation of the costs of the Proposed Facilities as proposed by Union.

What are the facilities and non-facilities alternatives to the Proposed Facilities? Have these alternatives been adequately assessed and are any preferable to the Proposed Facilities, in whole or in part?

While OGVG is supportive of increasing the ability of the Panhandle Union system to provide firm service to customers, OGVG also has an interest in ensuring that the manner in which that increase in capacity is pursued makes both operational and economic sense. Like, it assumes, all other intervenors, OGVG has no interest in supporting material capital investment if there are other lower cost alternatives that make sense in the context of Union's role as the transmitter, distributor, and in many cases the supplier of natural gas to customers served by the Panhandle Union system. Having said that, in the context of the Proposed Facilities, the existing and future unmet demand those facilities are intended to meet, and the specific characteristics of the Panhandle Union system including specifically the nature of the Dawn and Ojibway valve connection points into the Panhandle Union system, OGVG is of the opinion that the most preferable alternative is the alternative put forward by Union in its application.

[13] Exhibit B.Staff.4 c) page 5 "Should the Board reject Union's proposal to depreciate the Project assets over a 20-year useful life, Union will address the impacts of the Board's decision as part of its 2019 rebasing application."

Union's exploration of facilities and non-facilities alternatives

OGVG notes that Union explores several different alternatives to the proposed project within the application. OGVG is satisfied with and supports Union's conclusion that within the context of the near-term, mid-term and long-term needs on the Panhandle Union system the Proposed Facilities represent the most appropriate option amongst the alternatives specifically explored by Union in its application.

The "Ojibway Alternatives"

Throughout the course of the proceeding several intervenors have explored whether it is possible to meet some or all of the incremental capacity requirements on the Panhandle Union system by facilitating a material increase in the flow of natural gas into the Panhandle Union system through the Ojibway Valve site (the "Ojibway Alternatives"), beyond that which was specifically explored in detail by Union in its application. It seems to OGVG that such alternatives appear attractive, on their face, because they require (or appear to require) little or materially reduced supporting capital investments, instead relying on increased flow of natural gas from the western end of the Panhandle Union system, as opposed to increasing the capacity of the system to handle increased natural gas flow from Dawn.

OGVG is unaware at this stage of the proceeding precisely which of the possible "Ojibway Alternatives" other intervenors may propose. Accordingly OGVG can only make general submissions about its concerns about such alternatives, and relies on Union, by way of its right of reply, to address any specific proposals that are actually advanced, including:

a) whether the specific proposals are technically feasible,
b) if so what the costs of those proposals are, and
c) how the costs and operational effectiveness of any technically feasible proposals compare to the costs and operational effectiveness of Union's Proposed Facilities.

In terms of general submissions with respect to the Ojibway Alternatives, OGVG is concerned that while such alternatives may appear to avoid material capital investments by harnessing the ability (to the extent that ability exists) to increase the flow of gas into the Panhandle Union system from the Ojibway Valve site (as opposed to increasing the flow from Dawn as would happen using the Proposed Facilities), proponents of such alternatives have not adequately addressed or acknowledged the impacts such proposals have with respect to Union's responsibilities as the transmitter, distributor, and supplier of natural gas to its customers.

By way of example, one of the most dramatic proposals replying on increased flow from the Ojibway valve site into the Panhandle Union system appears to be described in Exhibit J2.4, involving the import of a total of 175 TJ/day of natural gas into the Panhandle Union system through the Ojibway valve site. In addition to the fact that Union's response indicates that the proposal would require further facilities, Union describes the impact of relying on that level of import at the Ojibway valve site:

Regarding this significant level of imports, Union notes that increasing the reliance on Ojibway deliveries to 175 TJ/d to meet a growing system demand from a gas supply perspective is not a viable scenario. Relying on this level of gas supply at Ojibway, which is not a liquid trading point and with limited counterparties, would add significant gas costs to ratepayers and pose increased risk and uncertainty with respect to availability, term and price. This scenario would require Union to purchase an incremental 115 TJ/d which will bring the total Ojibway deliveries to approximately 36% of Union's firm gas supply portfolio, restricting Union's supply diversity and flexibility.

Union elaborated on the problems with relying on imports at the Ojibway valve site as part of its gas supply planning function:

MR. BUONAGURO: That is part of what I was going to ask you.

Can you explain in a little more detail, for someone like me who doesn't trade natural gas on the market, the difference between Dawn and Ojibway, in terms of liquidity?

MR. SHORTS: Absolutely. As I mentioned, Dawn is a very liquid trading point. Over 100 counter parties regularly transact there, and it has been the second-most physically traded natural gas hub for quite some time.

It's very liquid; lots of parties, lots of buyers and sellers. It's where storage is located. It is a location where many marketers and customers want to be buying and trading gas at.

It's very transparent, the price. It is reported on various trading indexes, as well as in Platts and other reporting agencies, and it has a tremendous amount of capability to take volumes in and withdraw volumes out.

There is also a well-connected integrated system of pipes coming into Dawn, as well as our Dawn to Parkway and this Panhandle system which come out of Dawn.

So there's a lot of activity in and around the Dawn hub that gives people the comfort to be able to trade there on a regular basis.

Ojibway, on the other happened, is not a hub. It is just strictly a trans-shipment point, or a connection between the Panhandle Eastern Pipeline System and Union underneath the Detroit River near Windsor.

And it is not liquid. There are not many parties, if any, that regularly trade there. From a transparency perspective, that price is not reported or traded on any indexes. It's not reported, for example, in Platts.

> *So it becomes very difficult for parties to actually contract there to, number one, find a party or, number two, to actually find a price that they can understand is actually reasonable.*
>
> *So if you look at the physical nature, as well as -- the physical nature of the Panhandle system leading up to Ojibway, you've got one 16-inch pipeline that leads up through Indiana, Ohio, and into Michigan. When it gets to near the connection or near the border, it is one 16-inch pipe that snakes through the suburbs of Detroit, crosses through a very industrialized part of southern Detroit, and then connects into two 12-inch pipelines that cross under the Detroit River.*
>
> *So it is definitely not physically integrated, and it is certainly not transactionally integrated with the rest of the systems.*[14]

Based on Union's evidence, OGVG respectfully submits, it would be inappropriate from a gas supply planning perspective to substantially increase reliance on natural gas flow into Panhandle Union from the Ojibway valve site. It is clearly preferable to purchase gas at Dawn, since the price of natural gas at Dawn is going to be more competitively priced and more transparently derived then at Ojibway.

In OGVG's respectful submission risking the balance in Union's Gas supply portfolio in the pursuit of non-facility alternatives that are very likely temporary and volatile in nature is inappropriate. As illustrated in the evidence the total annual bill experienced by customers is heavily dominated by the commodity cost, with the cost of gas supply generally exceeding 70% of the total annual bill; in many cases gas supply costs account for in excess of 80% or 90% of the total annual bill experienced by customers.[15] In OGVG's respectful submission choosing an alternative that seeks to avoid or delay investment in transmission related capital but at the same time disrupts and puts at risk the stability, reliability and affordability of Union's gas supply planning on behalf of its customers, given the disproportionate magnitude between transmission costs and gas supply costs, would be imprudent.

If a solution is pursued that involves disrupting Union's gas supply planning function on behalf of customers, then to the extent the cost of gas flowing into Panhandle Union from the Ojibway valve site is more expensive than the cost of gas flowing into Panhandle Union from Dawn that price differential, along with any other related costs and premiums, would have to be tracked and removed from the cost of Union's Gas Supply Portfolio and charged to Union's entire customer base as a transmission cost.

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[14] EB-2016-0186 Transcript Volume 2 pages 20-22.

[15] EB-2016-0186 Exhibit A, Appendix B, Schedule 6 illustrates the Total Annual Bill, the total Delivery Charge and total Gas Supply Charge for different levels of customers across all the effected rate classes. Other then for Small Residential Customers, for whom the total gas supply charge is estimated at less then 50% of the total annual bill (but for whom the annual cost of the Proposed Facilities at the Board approved depreciation rates is only $5.15), for all other rate classes the Gas Supply Charge is in excess of 70% of the total annual bill.

FRPO has made the suggestion that Union may not actually have to control the transportation and purchase of gas delivered to the Ojibway valve site and through Panhandle Union:

> *MR. QUINN: Their Ojibway alternative was to buy the gas and maintain control themselves. Our proposition is that allow others to bring the gas, Union only incents them like Parkway delivery obligation where other parties provide that gas and Union doesn't have to have the capacity to do it. They are just incenting others to do so on a firm and obligated basis, precisely the way that Parkway delivery obligation works.*[16]

Union was asked to specifically address the feasibility of such a proposal at the hearing:

> *MR. REDFORD: Well, again, so an obligated flow at Ojibway, somebody has to control that into Ojibway. And in our discussions with Rover, they're not willing to do that. In fact, they don't have title to the gas.*
>
> *So ultimately we would have to nominate -- or we would have to buy supply from one of the Rover shippers at Dawn, and then once that was -- that was done, then they would route that supply through Ojibway.*
>
> *They're not -- when you look at -- and we have confirmed this with Rover. Ojibway is not a delivery point on the Rover system. It's not included in their tariff which was filed, and it is confidentially filed with FERC. But they have told us that it is not -- it is not a primary delivery point and it's not -- they did not include it in their secondary delivery points.*
>
> *So Rover didn't have any intention of having deliveries at Ojibway.*
>
> *MR. BUONAGURO: Thank you. I am going to take you -- and this is the last bit of my questioning. I hear that, and then I recall what I read in this letter. And I am trying to reconcile the two.*
>
> *So this is from the package that was K2.1, attachment 1, page 4. I am looking at the second paragraph at the bottom. It says:*
>
> *"Further, if a delivery commitment is required for the supply on the 75,000 dekatherms per day, Rover would be happy to pursue such, including by providing the avenue for Union to work with the Rover shippers to accommodate that. We stand ready, as we have for the last 18 months, to discuss this with you."*
>
> *Now, this may be because I am not understanding what is going on at the level that you do, but that kind of sounds like they're willing to do something along the lines of what I will call the Ojibway alternative solution would suggest.*

[16] EB-2016-0186 Motion Hearing Transcript, pages 34-35.

Am I misunderstanding that?

MR. REDFORD: No. Working with Rover shippers would be Union purchasing from -- exclusively from Rover shippers at Dawn. Those are the discussions that we have had with Rover.

MR. BUONAGURO: So that's purchasing gas at Dawn?

MR. REDFORD: Correct. So we would have to purchase

-- well, purchasing from Rover shippers at Dawn.

So, you know, one of the issues with obligated supply is, so first of all you are relying on refer [sic] to get built for November 1, 2017. You are relying on it to be in service; if it's not in service then there's no way for them to provide the service to their shippers, which is a risk to us.

When Rover shippers -- when the pipeline starts to be utilized, we have no idea what that utilization is going to look like.

There's no history. As Mr. Shorts said, two-thirds of that volume is headed to the Gulf coast, which is a premium market.

So we've no idea how much gas will show up at Dawn, even for us to buy. Even if there is a Bcf of capacity to Dawn, we have no idea what's going to show.

And then we're going to have to purchase from a limited set of the market at Dawn, which would be just Rover shippers.

Our view is they're going to know that, and they're going to know we're obligated and they're going to know that our next-best option is the Panhandle field zone and I think we're going to see a premium for obligating at Ojibway for purchases at Dawn.

MR. BUONAGURO: And when you say that there would be a premium, presumably you're inferring that a premium would be unacceptably high?

MR. REDFORD: Yes. We think it would be at least equivalent to buying in the Panhandle field zone and transporting to Ojibway.

MR. SHORTS: Mr. Buonaguro, just to add to that, this isn't the first time we have had an experience with trying to contract for third party services in replacement of facilities.

We did this -- we had this experience during the Burlington-Oakville hearing, where we were trying to service our Union CDA market. And it was pretty clear that during the three-year term where we were out in the market buying those commercial services, that our alternatives were fairly well known, and our costs escalated from $5 million dollars a year in the first year to about $15 million in the third year.

So the market does know, especially in this situation, what our various alternatives are, and they will price those accordingly.

As a marketer or supplier, they value optionality, and what they want to be able to do is to move the gas to the market on the day that has the highest value.

So in the Rover case, that could very well be the Gulf coast. That is a premium market, and expected to be a premium market for LNG exports for the foreseeable future.

So the expectation is that, at a minimum, they will likely price it somewhere similar to the 34 cents or so that we have in the hearing here on a premium. But we expect they may also add a premium for the loss of the optionality and the flexibility that they have embedded within their contracts now.[17]

Accordingly, it appears to OGVG, the closest approximation to the "Parkway Delivery Incentive" solution proposed by FRPO involves the purchase of gas from the limited subset of Rover shippers at Dawn, which would involve what Union suggests would be an unacceptably high premium, even before considering the cost of the still required facilities and possibly other premiums in relation to loss of optionality and flexibility on the part of the Rover shippers Union would become beholden to.

OGVG believes that the Board should take note of the circumstances leading to the Parkway Delivery Incentive ("PDI"). As set out in the settlement agreement which creates the PDI:

There is currently an inequity in the manner in which the delivery of gas volumes required by Union at Parkway is achieved. A number of Direct Purchase ("DP") customers are contractually required by Union to deliver their Daily Contract Quantity ("DCQ") of gas to Parkway, at their own expense, in order for Union to operate its system. As a consequence, DP customers with a Parkway Delivery Obligation ("PDO") are conferring a benefit on all users of the Dawn-Parkway transmission system because its size and capacity are less than would otherwise be required.

[17] EB-2016-0186 Transcript Volume 2 pages 30-33.

To rectify this inequity, the Parties agree that the PDO should be permanently reduced primarily in the manner Union has proposed and as reflected in its evidence, but with certain modifications and an end-state as outlined below. Conceptually, the modified proposal is for Union to use excess Dawn-Parkway transmission capacity and other resources to provide the PDO relief it proposes, but with a defined end-state which includes the payment of a Parkway Delivery Commitment Incentive ("PDCI") for any continuing obligated DCQ deliveries at Parkway.

. . .

The equitable end-state which Union's ratepayers seek is one which either eliminates in its entirety the PDO or, where it is more cost-effective to do so, calls for all ratepayers to compensate DP customers upon whom a PDO is imposed and who deliver PDO volumes at Parkway and sales service customers on whose behalf Union delivers volumes at Parkway for the benefit conferred on Union's integrated system.[18]

As the settlement sets out, the primary purpose of the PDI is not to avoid transmission related capital investments. To the contrary, the PDI is one element of a plan to rectify a situation where Union had avoided transmission investments by forcing Direct Purchase customers to deliver their natural gas to Parkway against their will. The fact that Union will provide a PDI to customers that continue to ship their gas to Parkway does not derogate from the fact that the scheme of the settlement is designed to eliminate so far as possible the obligation for any customer to ship to Parkway as an alternative to appropriate transmission related investment by Union.

Seen in this light, it does not make sense, OGVG respectfully submits, to intentionally avoid transmission related investments by relying on deliveries of natural gas to the least desirable delivery point on the system. Put another way, it makes no sense to OGVG to compel Union to plan its transmission system in a manner that creates the operational constraints that led to the (ultimately objectionable) Parkway Delivery Obligation.

The notion that it is appropriate to rely on obligated deliveries by customers to Ojibway and to incent customers to accept such obligated deliveries in the same way there is a reliance on obligated deliveries at Parkway is further undermined by the fact that such obligated deliveries to Parkway are deliveries by in-franchise customer ultimately shipping into the Dawn-Parkway Transmission system, unlike the Rover shippers that Union would have to rely on in trying to recreate such conditions at Ojibway:

MR. QUINN: I want to make sure we're clear. When I am going to ask questions as we through the morning, when I'm talking about obligated deliveries at Parkway, I would like Union to assume that that is the scenario that we're creating.

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[18] EB-2013-0365 Settlement Agreement Appendix B pages 1-2.

We can take to argument whether you feel you need to purchase or not. But we're looking for economically incented deliveries at Ojibway. Are you comfortable with that?

MR. REDFORD: No. No, not at all. We're talking two different things. On one hand, you're talking about in- franchise customers with a DCQ that are delivering at Parkway and meeting an obligation. And on the other hand, you're talking about producers which we have no relationship with, and trying to obligate them at Ojibway.

They are two totally different circumstances.

MR. QUINN: They may be totally different circumstances, but I am specifically referring to an economic incentive that is created which requires a firm obligation, not unlike a call service, Mr. Redford.

Mr. Redford, if we could focus on what we're talking about with the call service, Union can put in place an obligation on a shipper to deliver firm on their call, correct?

[Witness panel confers]

MR. REDFORD: So the Parkway call again is for in- franchise customers. You are talking about putting a call on shippers of which, you know, we have not purchased the gas from. People are meeting an obligation to us at Parkway.

So I don't -- they're not the same thing and that's my -- that's my rejection of your thesis. I just -- it's not the same thing. It is a much more complicated piece and again, you're talking about us obligating deliveries from suppliers that we don't have a relationship with at Ojibway.

And in fact, they won't even have transportation on our system.[19]

In OGVG's submission the facts leading to the creation of the Parkway Delivery Incentive as a corollary of the elimination of the Parkway Delivery Obligation are materially different than the facts surrounding the appropriate plan going forward for Union to increase its transmission capacity on the Panhandle Union System.

Do the facilities address the OEB Environmental Guidelines for Hydrocarbon Pipelines as applicable?

No submissions.

[19] EB-2016-0168 Transcript Volume 2 pages 35-37.

Are there any outstanding landowner matters for the Proposed Facilities with respect to routing and construction matters? For greater clarity, landowners include parties from whom permits, crossing agreements and other approvals are required.

No submissions.

Is the form of easement agreement offered by Union or that will be offered by Union to each owner of land affected by the approved route or location appropriate?

No submissions.

Are the Proposed Facilities designed in accordance with current technical and safety requirements?

No submissions.

Has there been adequate consultation with potentially affected parties?

OGVG respectfully submits that it and its members were adequately consulted with in connection with the need for reinforcement on the Panhandle Union system.

Has there been adequate consultation with Indigenous communities with respect to any Aboriginal or treaty rights that may be adversely impacted by the Proposed Facilities?

No submissions.

Does the project meet the capital pass-through mechanism criteria for pre- approval to recover the cost consequences of the Proposed Facilities?

OGVG submits that the Proposed Facilities meet the capital pass-through mechanism criteria, with the following caveats:

a) OGVG notes its previous submission to the effect that whether or not the Board approves new depreciation rates applicable to the Proposed Facilities (an approval OGVG believes should be rejected in this proceeding) the terms of the pass-through mechanism do not allow the recovery of depreciation costs based on rates other then what was previously approved for Union, and

b) OGVG notes that the terms of the pass-through mechanism require the inclusion of all incremental delivery revenues arising from or enabled by the project, not just the transmission related revenue as it appears Union has assumed in its calculation. To that end OGVG notes that the LPMA has provided detailed argument on the inclusion of all incremental delivery revenue in its submissions, which argument OGVG supports and relies on.

If the OEB approves the Proposed Facilities, what conditions, if any, are appropriate?

No submissions.

ALL OF WHICH IS RESPECTFULLY SUBMITTED THIS 14th DAY OF DECEMBER, 2016