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December 15, 2016 **VIA E-MAIL**

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

Dear Ms. Walli:

Re: Vulnerable Energy Consumers Coalition (VECC)
Final Submissions: EB-2016-0186 – Union Gas Limited – Panhandle Reinforcement Project

Please find enclosed the submissions of the Vulnerable Energy Consumers Coalition (VECC) in the above noted proceeding.

Yours truly,

Michael Janigan
Counsel for VECC

Cc: All Intervenors

EB-2016-0186

ONTARIO ENERGY BOARD

IN THE MATTER OF The Ontario Energy Board Act, 1998, S.O. 1998, c.15, Schedule B, and in particular, S.90.(1) thereof;

AND 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 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 for an Order or Orders for approval of recovery of the cost consequences of all facilities associated with the development of the proposed Panhandle Reinforcement Pipeline Project.

SUBMISSIONS ON BEHALF OF THE

VULNERABLE ENERGY CONSUMERS COALITION (VECC)

December 15, 2016

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Vulnerable Energy Consumers Coalition (VECC)

Submission with respect to

Panhandle Reinforcement Project

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1. INTRODUCTION

1.1 In this proceeding, Union Gas Limited seeks Board approval for leave to construct an expansion to its Panhandle System by replacing approximately 40 kilometres of NPS pipeline with NPS 36 pipeline connecting its Dawn compressor station with its Dover Transmission Station. The System transports natural gas from Dawn to the Ojibway Valve Site in Windsor and provides gas to distribution pipelines serving customers in between the two locations. The capital cost of this expansion ("the Project") is $264 million dollars. If approved the Project would have a substantive impact on existing customers with an increase in the revenue requirement for 2017 of $4.8 million and in 2018 of 25.6 million.[1]

1.2 In essence this application comes down to four questions: (1) is there a need for the project; (2) if there is a need, for the project proposed what is the best way to meet this need; (3) are the proposed allocations of the costs of the project correct and, (4) should the Board approve the proposal to modification for this project of the standard deprecation lives? These questions are broadly covered by issues 1thorugh 4 of the Board approved issues list. VECC has no submissions with respect to the remaining issues.

1.3 VECC accepts that the project *as proposed* meets the capital pass-through mechanism (CPM) criteria.

1.4 We have had an opportunity to review the submissions of the Association of Power Producers of Ontario (APPrO) in this proceeding and have been assisted

[1] Exhibit A, Tab 8, Schedule 1

by the juxtaposition of the Union efforts to advance the project and the APPRO assessment of potentially viable options. We are in substantive agreement with the arguments of APPrO, except with respect to one issue– we do not support the cost allocation proposal of Union Gas for this project

2. NEED

2.1 The need for this reinforcement project is supposedly driven by increased demand for firm service that exceeds the operational capacity of the Panhandle System. Union states that it will be unable to meet expected demand for firm service by November 2017 without additional capacity.

2.2 In Union is forecasting significant commercial and industrial demand for firm capacity. It issued a request for Expressions of Interest as part of the 2016 Leamington Expansion Pipeline Project (EB-2016-0013) to assess the market demands for that project. The response to the request exceeded the capacity that Union said it could make available through that project. A total of 80 TJ/d of firm demand was requested, of which 32 TJ/d is to be served by the Leamington Expansion Project. The result was that Union was unable to serve approximately 48 TJ/day of identified firm demand in the Leamington - Kingsville area. The other area of growth identified by Union was in the Windsor area, primarily the proposed Windsor Mega Hospital and the proposed new international bridge which Union speculates will lead to need for CONG facilities for transport fleets.

2.3 The majority of the incremental demands are from requests of greenhouse customers in the Lamington-Kingsville area[2]. After experiencing interruptions, some interruptible customers are seeking to go firm. Approximately 20% of the Design Day volume can be accounted for by interruptible demand.[3] The forecast growth in demands are shown below:

[2] In the winter of 2014/15 Union interrupted the Panhandle System a total of 19 days.
[3] Union, Argument-in-Chief, pg.5

Table 5-1 - Design Day (TAJ/d)

Panhandle	Rate Class	Historical				Forecast					
		W 12/13	W 13/14	W 14/15	W 15/16	W 16/17 (Leamington Expansion Project)	W 17/18 (Panhandle Reinforcement Project)	W 18/19	W 19/20	W 20/21	W 21/22
System Capacity (43.1 IOFF) (TJ/d)		490	527	529	529	565	671	671	671	671	671
System Demand (43.1 IOFF) (TJ/d)	M1/ M2	278	284	308	292	295	297	299	302	304	308
	M4	49	64	44	45	52	79	92	102	109	116
	M5	3	2	8	5	11	11	11	11	11	11
	M7	5	4	7	15	29	46	46	46	46	46
	T-1	155	162	34	31	37	43	43	43	43	43
	T-2	0	0	127	141	141	147	147	147	147	147
System Demand (43.1 IOFF) (TJ/d)	Total	490	515	527	528	565	623	638	651	661	671

2.4 The Panhandle System represents the primary transmission pipeline asset to transport natural gas primarily from Dawn to the Ojibway Valve Site ("Ojibway") in Windsor and to feed high pressure distribution pipelines serving residential, commercial and industrial in-franchise markets along its path. Approximately 90% of the demand on the Panhandle System is served from the Dawn Hub on Design Day. The remaining 10% is supplied at Ojibway from Panhandle Eastern[4]. One of the questions in this proceeding is whether the flows on this system are on the cusp of change from deliveries to Ojibway via the new Rover Pipeline system.

2.5 It is Union's position that incremental imported supply at Ojibway is only suited to efficiently serve demands in the far west end of the market in Windsor (between Ojibway and the Union Sandwich Compressor) and does not provide the increase in pressures along the NPS 20 pipeline that are needed to support growth in the Lamington-Kingsville area.[5]

2.6 Union holds that if the pipeline is not built, then customers, including new residential customers, may not get service. We would note that this result seems out of synch with the facts. Residential customers are responsible for slightly more than 10% of the anticipated new growth of 106 TJs.

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[4] Union, Argument-in-Chief, pg.7
[5] Ibid, pg.7

> MR. JANIGAN: Okay, thank you for that. What percentage of the design day requirement forecast growth of 106 tJs is accounted for by this -- by residential growth that is in 5-3?
>
> MS. CAILLE: We do it primarily by rate class, and the residential would fall into the M1. We have categorized the M1 and M2 together being approximately 2 to 3 tJs per year.
> So that would be, if you do the math times a five-year time period, you are looking into the 10 to 12 tJ.
>
> MR. JANIGAN: Okay. So it is approximately a little over 10 percent?
>
> MS. CAILLE: That seems about right.[6]

2.7 On the other hand, interruptible customers going firm account for slightly less than 50 % of the new projected growth.

> MR. JANIGAN: So a little over 50 percent is driving that demand from interruptible customers going firm? Would that be -- would that be correct?
>
> MR. ISHERWOOD: It looks like 46 out of 106. So a little less than 50 percent –
>
> MR. JANIGAN: Okay. So about -- okay. A little under 50 percent.
> Now, I take it -- it may be self-evident, but if there were no other changes in demand other than the residential load growth shown by table 5-3, this project wouldn't be required. Am I correct on that?
>
> MR. ISHERWOOD: Well, I think a different project would be required. It would be a smaller project if it wasn't for the large greenhouse conversion IT to firm. [7]

2.8 The more likely outcome, if this project was not built, would be the denial of firm service to existing interruptible customers.

2.9 No compelling evidence was provided that all demands to go firm cannot be met. Union witness, Ms. Caille noted that the winter of 2014/15 was severe and fraught with interruptions; the following winter was not.[8] While a number of greenhouse operations will have decided to seek firm service, it is also likely that a number of these operations will have invested in ways of using alternative backup energy to meet interruptions. In any event Union provided no firm contracts to support its contention.

[6] Tr. Vol.1 pg.147
[7] Ibid Vol 1, pgs.148-149)
[8] Ibid, pg. 150

2.10 Union has also defined need in terms of 106 TJ/day based on forecast demands reached by the winter of 2021/22. In our view, short term alternatives to meet these demands have not been considered. The need to consider such alternatives is particular pressing given the number of uncertainties.

2.11 In our submission, Union's evidence on the forecasted demands is at odds with its proposal to shorten the depreciation life of the project due to demand contraction associated with Cap & Trade, and other government initiatives to reduce energy consumption. We again note the lack of firm contracts to underpin the incremental contract demands. Given the large role these customers play in this project, we find this absence of evidence disconcerting particularly given that the need for this project came to the fore with Union in 2012[9] .

2.12 Union has not done any study of the relationship between DSM and peak demands[10]. DSM began long before similar CDM initiatives in electricity, or government conservation polices. It was introduced by the Board under the ambit of "least cost planning". The aim was to reduce infrastructure requirements to be replaced by lower cost conservation initiatives. Yet, after decades of these programs, for which ratepayers pay tens of millions of dollars annually, there has been no systematic consideration of their impact on peak system demands.

2.13 Union and some parties have made arguments that without the proposed facilities greenhouse gas facilities would move to different locations. Much has been made of those who have either moved or shown a desire to move operations to the U.S. No doubt this is true. However, there are many reasons for the movement of industries from one locale to another. Changes in exchange rates, trade policy, labour costs, and market demands can all have a significant impact on the business decision of where to locate. No evidence was produced in this proceeding that the movement or potential movement to other jurisdictions by

[9] Exhibit B Staff 1
[10] Undertaking J1.1

industries is solely, or even partly due to firm gas supply availability in southwestern Ontario. However, it is clear that the greenhouse gas industry would benefit from what might be considered to be a subsidy from the general body of ratepayers, in order to provide firm supply for these businesses.

3. THE PROPOSED PROJECT AND ITS ALTERNATIVES

3.1 Union has two "full pipeline" alternatives. The proposal and an alternative of an NPS 30 pipeline from Dawn to Dover Transmission. The cost difference and Net present values of the "NPS 30" vs "NPS 36" alternatives are marginal. In VECC's submission, these two alternatives obfuscate the analysis, and are, in our view, a distraction to the important issues raised by this application.

3.2 Union looked at two other alternatives – CNG which it deemed impractical and increased deliveries at Ojibway. The latter alternative includes Union contracting for an incremental 34 TJ/d of supply at Ojibway and installing incremental pipeline and station facilities along the Panhandle System to serve the remainder of the demand from Dawn. Prior to 2022 a new pipeline with incremental deliveries at Ojibway would be about 10% less expensive ($235 million vs $264million) as shown in the table below:

Table 6-1
Incremental Reinforcement Facilities Comparison in 2022

Base Facilities 2017-2021	**Proposed Pipeline**	**New Pipeline with Incremental Deliveries at Ojibway**
Incremental Facilities in 2022	16 kilometres of NPS 12 pipeline from the NPS 20 pipeline into the Town of Kingsville and build a new station to feed the distribution network.	Lift remaining 13 kilometres of existing NPS 16 pipeline and lay NPS 36 pipeline from Dover Centre to Dover Transmission
	12 kilometres of NPS 6 pipeline looping upstream of McCormick Station in the Municipality of Essex.	
Incremental Capital in 2022	$40 million	$99 million
Total Capital	$305 million	$334 million
Total NPV	**$(239) million**	**$(271) million**

Source: A/T6/pg.13

3.3 Union has also stated that "*There are no stand-alone commercial services that can be contracted with a pipeline company or secondary market that would deliver natural gas via the Panhandle System into the distribution networks that will eliminate the need for additional pipeline and station facilities*."

3.4 Union's evidence is that imports of natural gas at Ojibway are limited by two things. First, the amount of natural gas that Union can accept from Panhandle Eastern and transport from Ojibway toward Dawn is limited by the operational requirement relating to the minimum daily Windsor area consumption. Secondly, the capacity of the Sandwich Compressor Station located in Tecumseh. Union's position is that these constraints limit the maximum capability to accept imports to 115 TJ/day. Union also believes that capacity at Ojibway is limited to 185 TJ/day of which it can control only 60 TJ/day.

3.5 Given that Union imports for its in-franchise customers on a design day a total of 60 TJ/day and C1 capacity is 20 TJ/day, there remains 35 TJ/day available on Union's Panhandle system. Rover Pipeline has contracted for that remaining capacity on November 22, 2016 for a term of eight years. Rover Pipeline will be using this capacity to provide its shippers with a delivered service to Dawn

3.6 APPrO has made substantive and, in our view convincing, arguments with respect to the ability of Union to explore opportunities to increase deliveries from Ojibway. We will not repeat these, but only add that the arrival of the Rover pipeline, the growing prominence of Utica/ Marcellus Shale gas moving to the Dawn Hub leaves much in the way of flux, including the reasonable possibility of increased capacity at Ojibway. We also agree that the 115 TJ/day constraint raised by Union is based on a limited view of how gas can be purchased throughout the year.

3.7 In our submission, the Board should be wary of the impediment cited by Union that Ojibway is not a liquid trading point. Natural gas trades at a number of trans-shipment points, including Niagara. Both Rover, which serves into the Ojibway interconnect, and Nexus, as an alternative entry to Dawn, serve the same production basin. If approved tolls on Rover are less than Nexus then it is possible for Ojibway delivered gas to be competitive with Dawn. In any event Union has done little in the way of analysing the net present value of incremental gas costs in comparison to infrastructure, no doubt because the former strategy produces no margins for the Utility.

3.8 Finally, we would note that the additional costs of the rejected Ojibway option only come in to play in 2022. If Union were correct with respect to the reductions in natural gas consumption due to government policies then one might conclude its forecast for post 2022 long-term demands would be significantly reduced. In this scenario, (which is the one contemplated by the proposed reduced depreciation rates), one might expect different investment decisions. In sum, if uncertainty is an issue then deferral of investment, if possible and at a reasonable cost, would seem the prudent course of action.

4. PROPOSED CHANGES TO DEPRECIATION

4.1 This project has a significant impact on residential customers – in large part because of the proposal to change both the life of the assets and the method of cost allocation. The proposed change would add $41,508M to the cost over the period 2017-2022.[11]

4.2 Union proposes to reduce the life of the new assets to 20 from 50 years. It proposes this change based on not much more than speculation. In response to the Ontario government's Climate Change Action Plan, the utility has painted a scenario of doom and gloom for the natural gas industry, while simultaneously asking the Board to believe that demands for gas will increase by 27% over the next five years.

[11] Exhibit J1.3

4.3 In fact, no compelling evidence is presented to support either of these concerns. Yes, building codes may be changing and Cap and Trade may have an effect on consumption of natural gas .. But building codes are always being re-examined for improvements and there have been no timelines presented with the changes and anticipated results. There is scant information that such changes would affect overall gas consumption in any event, given the longevity of the building stock.

4.4 At its essence, government "green" policies have the ultimate effect of raising the price of natural gas. Consumers are sensitive to the end price of gas which includes commodity and delivery. Therefore a proper analysis of the impact of government policy would include the potential impact of such energy policies might have on gas prices and thereby on natural gas demand. Union has done none of this work. In fact, natural gas is still a preferred fuel of choice:

> MR. JANIGAN: Okay. I take it when you were looking at the effect of greenhouse gas emission policies on asset life, your comparison is not to other fossil fuels. It is to other energy alternatives that might exist and replace natural gas, either by fiat or by customer choice. What I am getting at is that you have no expectation that natural gas will be a worse choice with respect to other carbon-based fuels in the future?
>
> MR. ISHERWOOD: Natural gas should be the best choice, because the carbon intensity of natural gas is the lowest of all of the hydrocarbon fuels.
>
> MR. JANIGAN: Okay. And you expect that to remain that way?
>
> MR. ISHERWOOD: Yes.[12]

4.5 If the Board were inclined to accept a revised depreciation rate for this project then it follows that all future projects, in fact all existing asset depreciation rates must be reconsidered. This would apply not only tor Union, as there is no logical differentiation in this issue among utilities, but for all natural gas utility assets in the province. Is the Board prepared to undertake that policy review based on this one project?

[12] Tr. Vol. 1, pgs. 141-142

4.6 In any event, in our submission even if the Board were inclined to accept the forecast underpinning Union's project, it must reject the proposed change in depreciation for the medium term.

5. PROPOSED CHANGES COST ALLOCATION

5.1 The second policy change involves the proposed interim cost allocation methodology which would see the project costs allocated using only the Panhandle System Design Day demands and removes the St. Clair System Design day demands.

5.2 Union also proposes to not update allocation to the ex-franchise rate class. Union states that Rate C1 and M16 customers are not driving any of the costs of the project because they flow counter to the flow of the Design Day volumes. Table 8-8 reproduced from Union's evidence is show the impact of the proposed change:

Table 8-8
Comparison of Board-Approved and Proposed
2018 Project Cost Allocation Impacts

Line No.	Particulars ($000's)	Board-Approved (a)	Proposed (b)	Difference (c) = (b - a)
	In-franchise South			
1	Rate M1	4,978	10,553	5,576
2	Rate M2	1,927	3,824	1,897
3	Rate M4	1,177	3,143	1,966
4	Rate M5	(2)	32	34
5	Rate M7	254	796	542
6	Rate T1	1,520	1,252	(268)
7	Rate T2	11,818	6,316	(5,502)
8	Other	8	8	-
9	Total In-franchise South	21,680	25,925	4,245
	Ex-franchise			
10	Rate C1	3,594	79	(3,514)
11	Rate M16	714	(16)	(731)
12	Other	286	286	-
13	Total Ex-franchise	4,595	350	(4,245)
14	Total In-franchise North	(667)	(667)	-
15	Net Revenue Requirement	25,607	25,607	-

Source A/T8/pg.20

5.3 It is clear that the proposed changes will have a dramatic impact on the costs allocated to existing residential customers. However, these customers have very little, if anything to do with the demands for this project. They are in the unfortunate position of having the “peakiest” of demands, and thereby find themselves on the top of the allocation heap. When the heap rises, as with this project, in spite of not being the class that is driving its need, they become saddled with the majority of its costs. This is convenient from an optics standpoint , for rather than having the small number of customers driving the project pay a larger share, the much larger base of small volume customers are nicked with lesser amounts to support it.

5.4 Conversely, the proposed change conveniently reduces the allocated costs to the smaller number of T1 and T2 customers.

5.5 We would draw the Board’s attention to the (unsolicited) undertaking response to the line of questioning by Panel Chair Duff concerning the exclusion of the St. Clair assets in the allocation methodology. What that response reveals is the extreme variability that exists in the cost allocation modelling based on a single investment. The view represented by the response is apparently that the principles that underpinned the common allocation of costs as between St. Clair System and Panhandle have now become defunct. Arguably if the future investments were made in the St. Clair System, such common allocation would once again be become de rigeur. We dispute the concept that an investment in different parts of an integrated distribution system should dramatically change the underlying principle of cost causality.

5.6 The question that needs to be answered is why was it appropriate to have a common allocation for St. Clair and Panhandle in the first instance, and why is not so now? The answer provided was :

> The Board-approved cost allocation was reasonable when the Panhandle System and St. Clair System had similar costs per unit of demand. With the addition of the Project costs that related only to the Panhandle System and no change to the cost of the St. Clair System, the use of the combined system no longer reflects the costs to serve the customers on each respective transmission system.
>
> The result of using the Board-approved cost allocation for the Project allocates significant costs to ex-franchise Rate C1 and Rate M16 that would require a rate increase in excess of 300% in order to recover the costs. Using the Board-approved cost allocation also disproportionately allocates significant costs to in-franchise Rate T2. The St. Clair System has a large Rate T2 customer base and using the Design Day demands of the combined system to allocate costs to in-franchise rate classes results in an allocation to Rate T2 that is not representative of their use of the Panhandle System.[13]

5.1 It would appear that leaving the principles in place that apparently underpinned the original cost allocation would result in C1, M16, and T2 customers paying too high a price. The corollary question remains to be answered is why, in the first instance, these customers were deemed to be served by a common system, and now, by only a part of that system.

5.2 Union's proposal is not only untested, but it raises the question of whether this is a fair and sustainable allocation model for projects driven by single group or class of customers. It is clear to us that Union is obliged to explain what appears to be basically illogical proposition without proper study. In any event, the Union position should not convince the Board of the necessity of this singular adjustment to cost allocation during the IRM period.

5.3 It is also difficult to reconcile the position of Union in seeking a CPM in accordance with the Settlement Agreement entered into by Union in EB-2013-0202 with its effort to seek project depreciation rates that recognizes a purported shortened expected life span of the investment in seeming contravention of the terms of the said Agreement.

[13] Ibid

6. CONCLUSIONS

6.1 We agree with the submissions of a number of parties that Union has conveyed a misleading sense of urgency with this project. We also agree with parties that, notwithstanding its apparent early knowledge derived from prior applications, it has come late to the Board with a plan. Whether out of intent or through inadequacy of its planning process, it is for the Utility to bear the burden on its inaction.

6.2 The strategy chosen by Union to cope with this growth, and the assumptions associated the choice of the Project as the preferred option; lead to a conclusion that approval of leave to construct and the Project's subsequent qualification as appropriate for the use of the capital pass-through mechanism (CPM) in Union's 2014-2018 would be premature at best.

6.3 VECC would note the following concerns, among others, associated with the potential approval of the Project in this proceeding:

i. The rather speculative aspects of the forecast of demand for firm service given the lack of actual customer contracts;

ii. The discounting of DSM savings and the effect of Cap and Trade upon demand and Design Day requirements that might obviate the problem of coping with growth;

iii. The foreshortened explorations of the numbers of customers willing to move to interruptible service (possibly with incentives);

iv. Whether sufficient efforts were made to secure further deliveries at Ojibway either through a thorough canvassing of shippers with capacity on the Panhandle Eastern system or negotiations with Energy Transfer to accomplish the same to meet demand;

v. Whether an option involving the use of NEXUS coupled with a new Panhandle Eastern interconnect could be viable.

7. NEXT STEPS

7.1 In VECC's submission the application should be deferred until the following conditions have been met:

i. Union has firmed up contract demands of greenhouse gas users.

ii. Union has further explored non-infrastructure commercial alternatives including, but not limited to Ojibway delivered gas supply, and that these explorations provide for reasonable timelines for responding parties to consider.

iii. Union investigates the development of more attractive and potentially zoned interruptible rates to address specific circumstances, such as obtain in this application, and where such a solution might provide a compelling least cost alternative.

iv. A comprehensive cost allocation study which includes the appropriate allocation as between St. Clair and the Panhandle systems, and the recent delivery zone changes is carried out by Union Gas;

v. A comprehensive study, with third-party verification is completed for any proposed revised depreciation rates that includes the implications for depreciation rates of all assets not just those subject to a specific project.

8. REASONABLY INCURRED COSTS

8.1 VECC submits that its participation in this proceeding has been focused and responsible. Accordingly, VECC requests an award of costs in the amount of 100% of its reasonably-incurred fees and disbursements.

All of which is respectfully submitted this 15th day of December 2016.