

BY COURIER & RESS

June 26, 2017

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
Toronto, Ontario
M4P 1E4

RE: EB-2015-0179 – Union Gas Limited (“Union”) – Updated Community Expansion Proposal – Reply Argument

Dear Ms. Walli,

Pursuant to Procedural Order No. 9, please find enclosed Union’s Reply Argument in the above-noted proceeding. It will be filed in RESS and copies will be sent to the Ontario Energy Board (“the Board”).

If you have any questions with respect to this submission please contact me at 519-436-5473.

Yours truly,

[Original signed by]

Karen Hockin
Manager, Regulatory Initiatives

Encl.

cc: C. Keizer, Torys
EB-2015-0179 Intervenors

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15 (Schedule B), and in particular S. 36 thereof;

AND IN THE MATTER OF the Ontario Energy Board Act, 1998, c.15, Schedule B, and in particular S. 90 thereof;

AND IN THE MATTER OF an Application by Union Gas Limited for an Order or Orders for approval of Union's Distribution System Expansion Project proposals;

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 required to serve the communities of Milverton, Prince Township and, the Chippewas of Kettle and Stony Point First Nation and Lambton Shores.

REPLY ARGUMENT OF UNION GAS LIMITED

June 26, 2017

1. These are the reply submissions of Union Gas Limited ("Union") related to its expansion of natural gas distribution services proposed to four communities for which rate and leave to construct ("LTC") approval is required.
2. As detailed in Union's Argument in Chief ("AIC"), Union's updated community expansion proposal focuses on the following four communities; i) Kettle and Stony Point First Nation/Lambton Shores; ii) Milverton, Rostock and Wartburg; iii) Delaware Nation of Moraviantown First Nation; and, iv) Prince Township (collectively the "Community Expansion Projects"). As part of the update to set a stand-alone rate, Union has proposed a rate surcharge structure specific to each of the expansion projects noted above.

3. Union submits that none of the parties raised any concerns on matters specific to the LTC applications. Such matters are typically reserved for construction, facility design, land and environmental matters. In fact, SEC “takes no position on other aspects such as Union’s compliance with the Environmental Guidelines for the Location, Construction and Operation of Hydrocarbon Pipelines and Facilities in Ontario, its fulfillment of the duty to consult, as well as any land or construction matters.” (SEC, p. 2, footnote 7) In addition, VECC noted that it has no submissions with respect to Section 90 issues which are typically reviewed by OEB Staff, and also that their submissions on the Section 36 issue may be applied to the proposal for Prince Township. OEB Staff in its submission (OEB Staff, Appendix A) included proposed standard conditions of approval for Union’s review and comment. Union has no concerns with the conditions as proposed.
4. Submissions were filed by OEB Staff, School Energy Coalition (“SEC”), Consumers Council of Canada (“CCC”), Vulnerable Energy Consumers Coalition (“VECC”) and the Canadian Propane Association (“CPA”). OEB Staff’s submissions were generally in support of Union’s application and community expansion proposal. The focus of the submissions of SEC, CCC, and VECC primarily related to the allocation of risk between existing ratepayers, expansion ratepayers and Union under Union’s community expansion proposal, with variations as to changes to Union’s proposal. CPA also raised issues relating to the allocation of risk, but strayed beyond scope of its intervention as prescribed by the Board in its correspondence dated May 2, 2017, including the making of certain inflammatory statements that are unsupported and inappropriate. Each of these parties will be addressed in turn.
5. Contrary to the submission of SEC, CCC, VECC and CPA, Union’s community expansion proposal and the risk treatment underpinning that proposal is consistent with the Board’s decision in EB-2016-0004 (the “EB-2016-0004 Decision”):
 - Union’s proposed System Expansion Surcharge (“SES”) is consistent with the Board’s view that *“An incumbent utility with existing rates may still propose to collect a surcharge over and above those rates to make up for the shortfall in revenues to cover the cost of expansion.”*¹

¹ EB-2016-0004 Decision, p. 21

- In the EB-2016-0004 Decision, the Board indicated that “There is no need to modify the parameters or depart from the principles embodied in E.B.O. 188²”. E.B.O. 188 requires the use of a discounted cash flow analysis (“DCF”) to demonstrate that a project meets the minimum required PI over the period of the DCF. Each of the four Community Expansion Projects meets this requirement with a minimum PI of 1.0 over a 40 year period. A project PI of 1.0 indicates that the project is self-financing and that existing customers will not incur a rate increase over the long term as a result of the project.³
- Customers served by the four Community Expansion Projects will pay a consistent SES amount of \$0.23/m³ for a defined term not to exceed 40 years as a contribution toward recovery of the cost of the project.
- Union’s approach meets the Board requirement for “*a minimum rate stability period of 10 years (for example)*”⁴. Union is proposing that it would bear the risk of fewer customers than forecasted attaching to the system through the 10 year customer forecast period. Throughout that period, in any rates application for ratemaking purposes, Union’s forecasted number of customers for the expansion communities would be the Board approved EB-2015-0179 forecasted attachment level⁵. The same approach will be taken for SES related revenue. Consequently, pre-existing customers of Union will not bear the risk of underachievement of the attachment forecast or volume forecast through that period. During the 10 year forecast period underpinning customer attachments, any variance in SES revenue from that forecasted would be attributed to the utility and Union will ensure there is no risk for current ratepayers in that period.
- Following conclusion of the 10 year forecast period, Union will continue to bear customer forecast risk until such time as it otherwise seeks approval from the Board in a rates application. In the future rates application Union would seek approval to reset the historical expansion area customer forecast at actual levels for ratemaking purposes. The Board would then have the opportunity to approve or adjust any resulting rate impacts as part of the rates application process.⁶
- The SES term does not equate to the rate stability period and there is no requirement that it do so under the EB-2016-0004 Decision. The fixed SES term and rate is an added benefit of the Union proposal.⁷

² EB-2016-0004 Decision with Reasons, p. 18.

³ Exhibit C.Staff.3d)

⁴ EB-2016-0004 Decision with Reasons, p. 20.

⁵ As detailed in Union’s letter of June 6, 2017 response to Question 1 (and supported by OEB staff in their submission at p. 7,8) Union will include for ratemaking purposes, the SES revenue as per the DCF and the attachment forecast for each project multiplied by the target NAC to arrive at the volume forecast.

⁶ Exhibit C.Staff.3 c)

⁷ Exhibit C.CPA.5 d)(iii)

- The EB-2016-0004 Decision provides no commentary on the treatment of capital costs or makes any distinction between capital expended for community expansion projects and that expended in the ordinary course. As such, all customers would bear risk of prudently incurred capital costs being higher than forecast, or the benefit of the capital costs being less than forecast. Union will include the actual cost of installing the mains and actual costs of connecting customers in rate base. The actual cost could be higher or lower than the forecasted cost. There is no mechanism for cost recovery of the projects during Union's current incentive regulation mechanism ("IRM"); as such Union bears the cost of the actual capital expenditure until the impacts of the project are included in a future rate application. When the impacts of the project are included in a future rate application, the Board will have an opportunity to determine if the costs were incurred prudently. (see Union's Settlement Status correspondence to the Board, response to Question 2, dated June 6, 2017)
6. Therefore, based on the foregoing, Union's proposal accords with the EB-2016-0004 Decision to expand service to communities in a manner that is self-financing and provides long-term rate stability and an appropriate allocation of risk.

OEB Staff

7. OEB Staff support the quantum and duration of the SES in the case of these particular community expansion applications, as well as Union's proposed treatment of any incremental funding by other parties, including the government through grants.⁸ OEB Staff submits that in cases where there is no competition to provide gas distribution services to a new community, a surcharge to existing rates is a cost-effective, potentially subsidy-free option to recover project costs.
8. OEB Staff supports Union's proposal for a rate stability period for the first 10 years.⁹ OEB Staff did not have any specific concern with Union's proposal to reset the revenue requirement going forward after year 10 based on actual attachments and recognizing that the issue will be before the OEB for adjudication after the 10 year period. OEB Staff took the position that the EB-2016-0004 Decision determined that existing customers should not subsidize expansion customers and that any variation from that principle would have to be justified by Union in a hearing before the Board after the 10-year period.

⁸ OEB Staff submission p.6

⁹ OEB Staff submission, p.8

9. As stated at p.8 of its submission, OEB Staff believes any request by Union for recovering revenue requirement shortfalls after the end of the initial 10-year period must be supported by information on forecast and actual attachments, volumes, Normalized Average Consumption calculations and resulting revenue shortfalls. In this regard, OEB Staff believe that Union must also provide a revised discounted cash flow analysis that uses actual attachments as part of any variance that it intends to seek after the 10-year forecast period. This will allow the OEB to understand the changes in PI after completion of the 10-year forecast period and consider options to address potential shortfalls, including the possibility of increasing the SES charge or duration. OEB Staff further submits that Union should provide the information proactively in a future rates application.
10. Union accepts that the recovery of any revenue requirement shortfalls after the rate stability period will require evidence of the nature described by OEB Staff and that Union will bear the onus. However, Union submits that there should be no update to the project PI or the SES rate, amount and/or term, unless provincial grant or other funding becomes available which would enable the SES term for a project to be reduced. Based on Union's extensive experience customers will look for as much certainty on rates as possible in making the decision to convert to natural gas. The potential for Union to make adjustments to the SES rate, amount or term, at a future date some 10 years or greater from the customer's decision to connect for natural gas service would increase uncertainty for the customer. Customers who convert will have done so based on the rates Union has communicated. For this reason, Union is reluctant to, in the future, break the commitment it made on the SES at the time the customer made a decision to attach. (Exhibit A, Tab 1, Addendum p. 13; Exhibit C.Staff.3 b)) However, in the event it is determined a recalculation of the PI is merited, Union submits any change to the PI must be on the basis of a materiality test before there is any consideration of a change to the term of the SES. For example, a materiality test of +/- 10% change in P.I.
11. With respect to Union's proposed treatment of capital costs, OEB Staff accepts that Union's approach is similar to other capital projects and that Union will bring forward

any variance between actual and forecast costs in a future rate application, potentially before the expiry of the rate stability period.¹⁰

12. As noted at p.9 of its submission, OEB Staff agrees with the position of Union that the Board will determine the prudence of any variance in capital expenditures in a future rates application. To the extent that Union has exceeded the capital cost forecast, it would be up to the Board to determine whether Union, the community expansion customers in question or all customers of Union in the specific rate class should bear the cost of the additional expenditure. Union understands that the Board has discretion to consider and make a determination in the manner suggested. However, consistent with its proposal Union submits that, if prudent, any variance should apply to all customers as in the case of any capital project. This provides for fair and equitable treatment between ratepayers as those customers in the expansion communities, which will pay existing rates plus the SES, will also bear the cost of capital projects undertaken in existing communities through existing base rates. For the foregoing reasons, Union does not agree with OEB Staff's alternative submission that the Board approve a capital cost deferral account that tracks the variance in capital expenditures related to community expansion projects and review the costs after the expiration of the initial 10-year forecast risk period along with the review of any revenue requirement shortfall that has been explained earlier.

SEC

13. SEC takes the position that Union's proposal is inconsistent with the new approach in the Board's EB-2016-0004 Decision since it still allows for a subsidy between existing and new ratepayers resulting from Union's proposed capital cost treatment and rate adjustment in the period after the rate stability period.¹¹
14. SEC submits that after the 10-year stability period, Union should be required to re-run the DCF analysis, updating only for the actual prudently incurred capital costs and the actual customer attachments, to determine an updated PI. According to SEC, if that number

¹⁰ OEB Staff submission p.9

¹¹ SEC submission p.5, para.15

differs from the original PI in this application, then Union should adjust the SES term to ensure the project has a PI of 1.0 over the first 40 years of the project¹².

15. The only distinction between the OEB Staff's position and that of SEC with respect to any future application to adjust revenue requirement after the rate stability period is the extent of the evidence to be filed and SEC's insistence that the Board indicate now the SES term could be subject to change. For the reasons set out above, Union reiterates that the SES term should remain unchanged and not be subject to future adjustment.

CCC

16. CCC holds the same view as SEC regarding the allocation of risk between existing and expansion customers. CCC, however, differs from SEC as to the modifications required to Union's proposal to reflect CCC's view on risk allocation. CCC believes that once the level and term of the SES is approved by the Board, expansion customers should not be subject to either an increase in the level of the SES or an increase in the term of the SES, as the risk of changes in either or both of those variables could materially affect the decision of a potential new customer to attach to the system.¹³ CCC further believes that expansion customers' decision to attach to the system should be based on a known SES level and term. In this regard, Union's and CCC's positions are aligned.
17. However, the focus of CCC's position is that rates applicable to the expansion community must be wholly "stand-alone" and that existing rates with a surcharge are not sufficient. According to CCC on this basis, expansion customers should not be subject to changes in existing rates. However, CCC's position is not valid for two reasons. First, it ignores the Board's ruling in EB-2016-0004 in which the Board indicated that, as noted above, an incumbent utility with existing rates may still propose to collect a surcharge over and above those rates to make up for the shortfall in revenues to cover the cost of expansion.

¹² SEC submission , p.6, para. 22. SEC accepts the benefits of having a uniform SES rate assuming the SES term is no longer than 40 years. (SEC submission, p.7, para. 27)

¹³ CCC submission p.5

18. Second, it takes an overly simplistic view of “stand-alone” rates that could only be valid if the expansion community could be served and operated in isolation to the rest of Union’s system. With respect to the latter point, although the expansion community would have a separate rate with the SES during the SES term, the system serving the community is not physically or operationally separate from the rest of Union’s system. The expansion community does not have its own gas supply plan, transmission connection, operations or administration. The expansion community is fundamentally part of the Union system. The recovery of the costs related to these and other system aspects must occur now and as part of any adjusted rates. The regulatory reality is absent if expansion customers were isolated from the rate changes in the manner proposed by CCC.

19. As noted, by OEB Staff,

“In the current application, there is no competing proponent that has expressed a desire to serve the communities. A surcharge has the benefit of being simple to implement for existing utilities by avoiding a requirement to develop stand-alone rates for every new community that the utility intends to provide service to. Existing utilities like Union and Enbridge have multiple rate schedules for their existing customers and they are not specific to municipalities: rather, they are regional or based on serving a specific class of customers, for example, residential, commercial, industrial or contract.

If utilities are required to develop individual rate schedules for every new community, it may be administratively burdensome and could lead to additional costs for customers. OEB staff therefore submits that in certain cases, a surcharge is a viable and cost effective option that should be considered in community expansions that do not involve competition. In cases where there is competition amongst proponents for providing service to a new community, the OEB’s evaluation criteria could be different so as to ensure that the rates of various proposals can be readily compared.”¹⁴

20. Union agrees with OEB Staff. Given the small size of the communities in question, it is not efficient from a regulatory perspective to develop extensive cost allocation methods

¹⁴ OEB Staff submission pp.6-7

to establish a stand-alone rate when existing rates will provide a transparent and effective basis to recover costs.

21. It is on the same incorrect premise that CCC asserts that only Union should bear the risk associated with the SES revenue over the entire SES term and that Union should be required to impute revenue to offset the revenue requirement associated with any excess capital costs or shortfall in customer attachments until such imputation is no longer required in order for the project to achieve a PI of 1.0. With respect to the SES term, Union has appropriately established a risk balance through its rate stability term of 10 years. With respect to capital cost, CCC completely ignores the typical treatment of capital additions to rate base, which is to assess any variance between actual and forecast costs at the time additions to rate base are considered and subject any material variance in such capital cost to a prudence review. CCC has provided no basis as to why community expansion projects should be treated any differently than other capital projects for existing customers such that Union is required to defacto assume all cost variance responsibility and be subject to an absolute standard instead of prudence. In effect, CCC is imposing a standard of perfection on Union for community expansion projects which is not the basis of any accepted regulatory principle or practice.

VECC

22. VECC, on the other hand, does acknowledge that the SES surcharge as proposed by Union is contemplated in the EB-2016-0004 Decision (VECC submission, p. 6). However, VECC argues that EB-2016-0004 provides an alternative to the lump-sum contribution in aid to construction for E.B.O. 188 projects and that the community expansion projects in question remain within the scope of E.B.O. 188 on the basis that they are “arguably” contiguous to Union’s system and that they are eligible for inclusion in the portfolio of expansion projects of Union. (VECC submission, p. 8) On this basis, VECC believes that a PI less than 1.0 is permitted and it argues for a PI of 0.9. However, VECC’s submission that the community expansion projects are contiguous to the Union system should not be relied upon by the Board. Unless, each of the communities are fed from a source separate from Union’s system, nearly all projects will be contiguous. Furthermore, the projects in question reflect the servicing of separate communities.

23. In any event, the question of whether the projects are contiguous is irrelevant to the Board's determination because VECC fails to acknowledge a key distinction between the regime under E.B.O. 188 and that under EB-2016-0004. In this regard it is important to note the difference between the SES and a contribution in aid of construction. While both enable a project to be made economic and rectify a shortfall between revenue and cost, the SES is revenue paid over time whereas a contribution in aid of construction is reflective of cost paid up front. This was the purpose of EB-2016-0004 where a rate making mechanism was permitted but subject to the condition that a PI of 1.0 be achieved. For the projects in question a rate reflected by the SES is required and as such they are outside the E.B.O. 188 regime. As a result, a PI of 1.0 applies and not the PI of 0.9 as suggested by VECC.
24. Notwithstanding that the capital additions with respect to the projects in question will be subject to a Board prudence review and the Board will ultimately have the ability to assess rates after the rate stability period, VECC believes that Union will have the incentive to under forecast capital.¹⁵ VECC proposes that based on actual capital costs each project's SES term should be recalculated one year after Union completes the project. As noted above, Union believes that the capital additions for the projects in question be treated like all other capital additions and subject to the Board's typical rate base review and rate treatment. For the reasons expressed above, the SES term should remain unchanged from what is proposed. In any event, the one year time period as proposed by VECC is arbitrary and would not reflect all project capital arising from ongoing customer attachments that cannot be fully considered until after the 10 year rate stability period.

CPA

25. At the outset it is important to note that by way of the Board's direction the intervention of the CPA was limited to the issue of the rate stability period.¹⁶ Most of the submissions of the CPA extend beyond that scope and as such should not be given weight by the Board. Furthermore, with respect to the CPA's submissions in general, CPA is acting in

¹⁵ VECC submission p.12, para. 4.11

¹⁶ Board's "Application for Intervenor Status by Canadian Propane Association" response letter, dated May 2, 2017

its own self-interest and any delay or complication that can be created to forestall the presence of natural gas in the communities in question would be to its benefit. Based on CPA's submission, CPA's participation is not about the appropriate implementation of the Board's EB-2016-0004 Decision in a manner that takes into account the interest of existing and new customers. As such, it is important that the Board consider the submissions of the CPA through the appropriate lens and weight them accordingly.

26. To this end, Union also notes that CPA has made various unsubstantiated and inflammatory statements that are inappropriate. In particular, CPA stated:

“By changing its data interpretation methodology, the result is a purely fabricated increase in attachment forecasts which is not attributable at all to an increase in the likelihood of respondents to connect. By fabricating an increase in forecast attachments, the SES volumetric rate and SES Term are artificially reduced.”¹⁷

CPA also stated:

However, the CPA feels compelled to draw the Board's attention to the fact, as revealed by Board Staff's IR question 6, that Union has taken those survey results then submitted fabricated attachment forecasts that are not at all reflective of the actual results of Union's own surveys.¹⁸

27. The accusations of CPA are wholly unfounded and completely inappropriate. They stem from Union's response to Exhibit C.Staff.6. The question posed and the response given are set out below:

Interrogatory - “Please reconcile the two numbers for forecast attachments in Lambton Shores and provide reasons for a larger forecast attachment rate in the updated evidence as compared to the evidence of December 2015.”

Response – “a) In its original EB-2015-0179 Community Expansion proposal, Union determined an overall attachment forecast by using data from the July 2015 survey. Customers who indicated that they were extremely likely or very likely, and 50% of those who indicated they were likely to convert to natural gas were included in the attachment forecast. In the 2017 update, Union

¹⁷ CPA submission p.20, para 65 (f)

¹⁸ CPA submission pp.20-21, para 65 (j)

utilized data from customers that indicated they were extremely likely, very likely and likely to convert from a February 2017 survey. This accounts for the difference in forecast rates.”

28. The foregoing was a full and proper response to the question asked. CPA has taken this straightforward response and has inappropriately construed to not only bring into question the forecast but also the integrity of Union before the Board. Without any basis, CPA has made assertions about Union’s data interpretation and the difference between surveys. CPA has provided no substantive basis to support its assertions other than what it believes is implied by the response and it did not seek any clarification during the proceeding. It provided a reference to a United Nations report to support its views and to data interpretation. However, this document is irrelevant to the issue at hand and is clearly not evidence properly brought before the Board. If CPA has been concerned about the response given and the clarity or correctness of the response it was free to bring a motion to see further and better response. It did not do so, which is surprising given the nature of its accusations. Instead, it has made unfounded accusations, which Union can only assume is for purposes of further CPA’s agenda and not that of any ratepayer – either new or existing.
29. CPA made various submissions regarding the rate stability period. In the EB-2016-0004 Decision, the Board established the concept of a rate stability period in the competitive context and as a means to counter the tactic of overly optimistic forecasts to gain a competitive advantage by exposing the competing utilities to forecast risk over a fixed period of a minimum length of 10 years. (EB-2016-0004 Decision, p. 20) The length of such a period would be established through the competitive process. In the current circumstances there is no competition to serve the communities in question. Nevertheless, Union has proposed a rate stabilization period of 10 years. Throughout the 10-year rate stabilization period, in any rates application Union’s forecasted number of customers for the projects would represent the Board-approved forecast attachment total. This same approach would apply to SES related revenue. The result is existing customers would not bear the risk of underachievement through the rate stabilization period. At the end of this period, the Board would have the opportunity to approve or adjust any resulting rate

impacts. It would not be in Union's interest to purposely over-forecast attachments and to have a poorly performing project for 10 years.

30. CPA has misinterpreted the Board's EB-2016-0004 Decision that there should be a rate stability period which corresponds to the SES term wherein the SES rate charged to expansion customers will not increase. (CPA submission p. 3, 12, 18) Union does not consider the SES term to be the equivalent of the rate stabilization period. Instead, Union considers the rate stabilization period to be the 10-year customer forecast period. The fact that the SES terms may extend beyond the 10-year stabilization period should be considered an added benefit of Union's proposal. (Exhibit C.CPA.5 d)(iii)). In fact, as noted earlier in this Reply, at no time in the EB-2016-0004 Decision does the Board reference an SES or a concept related to the SES in the context of the rate stability period. CPA cannot rely on the EB-2016-0004 Decision to equate the concepts of the SES term with the rate stability period.
31. In an effort to equate the SES term to the rate stability period, CPA also invented a new and unsupported concept which it referred to as "surcharge in lieu of a contribution" and which supposedly reflects the SES as a contribution in aid of construction paid over time. CPA during the course of the proceeding or in submissions provided no authoritative support for such a concept and at no time was it put to Union in an interrogatory as to the legitimacy of the proposition. In fact, CPA fails to recognize that the SES and a contribution are different as the former is the earning of revenue and the latter is the payment of costs. Furthermore, CPA makes the assumption a contribution will ultimately equate to actual cost through a truing up of that amount and as such the SES should be treated in a like manner (CPA submission, p.14). However, like the SES, a contribution is based on forecast revenue and costs and not actuals. As well, there is no requirement that a contribution is to be trued up and there was no evidence presented or elicited that such is the case. In fact, where a contribution is employed by Union for contract customers, the

contribution is not trueed up.¹⁹ As a result of the foregoing, the Board should not give weight to the submissions of the CPA in this regard.

32. The Board should also give no weight to CPA's position that the Board must either accept or reject the Application and require Union to reapply and that the Board cannot reach conclusions that differ from Union's proposal for purposes of its order and the application of the EB-2016-0004 Decision to the communities in question. This position is incorrect in law and should be ignored by the Board. The Board has broad discretion in its decision making and in particular has such discretion related to the approval of rates. The Application before the Board is for a rate approval under Section 36 of the *OEB Act*. To use CPA's flawed logic would mean that the Board has a very narrow jurisdiction to establish both the rate and the term over which it will apply as well as any conditions. This is not the case in any other rate application and is not the case here. The Board is free to exercise its discretion to establish a rate order in this proceeding that reflects all or part of the Application as long as the rate established in just and reasonable.

Moraviantown Grant

33. Union is planning to extend service to the Delaware Nation of Moraviantown First Nation community. This project does not require LTC approval. However, Union has for the information of the Board included detailed information for this project. In evidence, Union noted that this project is contingent upon grant funding or some other type of upfront contribution. While OEB Staff has no specific concerns with respect to Union's proposed treatment of government grants, OEB Staff through their submissions at page 11 request an update from Union on whether it has applied for a government grant with respect to the Moraviantown project and the current status of the grant application since it is not known how long Union intends to wait before it will abandon the Moraviantown project due to lack of funding. As noted in Union response at Exhibit C.Staff.13, Union does not know the status of applications by Moraviantown as these applications were made by the community. However, Union intends to apply by July 31, 2017 (deadline for grant applications) for a grant from the Ontario natural gas grant program for the project.

¹⁹ EB-2016-0013 2016 Leamington Project in response at Exhibit B.OGVG.4f) where Union notes that Aid contracts do not include a true up provision to reflect actual costs of construction.

34. CPA submits that the Board cannot grant approval for the SES approval sought by Union for Moraviantown because the status of government grants are not yet known. Union has been very clear in its evidence that a government grant is required to enable a PI of 1.0. As such, Union has been clear that it will not proceed with the construction related to this project until sufficient funding has been received. Given the small size of the community and the fact that a LTC is not required and Union is before the Board for the first time since the EB-2016-0004 Decision with other projects seeking a similar form of rate relief, it is efficient from a regulatory perspective to deal with all the requests as a whole and not in a separate applications. Union believes that the need to be efficient from a regulatory perspective is also important given the passage of time since the community has sought the provision of natural gas service. Union recognizes that the Board has the ability to establish conditions in its approval, including the provision of the necessary grants to establish a PI of 1.0 be in place prior to the provision of service.

Reinforcement Advancement

35. OEB Staff requested that Union provide the calculations in support of an advancement charge of \$126,500 with respect to the Milverton project. Union provided the calculation in Exhibit C.Staff 12. OEB Staff indicated satisfaction with the underlying calculations that support the amount. However, OEB Staff sought clarification through its submissions as to whether the Milverton project will lead to new attachments or load additions of 200 m³/hour or higher, which was one of its criteria in the initial application. Union confirms that the (10 yr) demand for Milverton project exceeds the 200 m³/hr figure.

Conclusion

36. Union submits its updated EB-2015-0179 proposal to support the expansion of natural gas service to the communities in question is aligned with the intent of the Board's EB-2016-0004 Decision. Consistent with the submissions in its AIC, Union maintains the terms of its proposed SES rate surcharge proposal are appropriate to ensure expansion projects meet the financial parameters as outlined in EB-2016-0004. Union further maintains the expansion of natural gas infrastructure to these areas will create benefits

not only for the customers who choose to convert to natural gas but to the community itself, as a whole.

37. Union therefore respectfully requests the Board grant the relief it seeks in this application.

All of which is respectfully submitted this 26th day of June, 2017.

UNION GAS LIMITED

By its Counsel

Torys LLP

(Original signed by)

Charles Keizer