EB-2017-0087

ONTARIO ENERGY BOARD

UNION GAS LIMITED

Application for natural gas distribution, transmission and storage rates commencing January 1, 2018.

EVIDENCE

of

INDUSTRIAL GAS USERS ASSOCIATION (IGUA)

Introduction

1. This evidence is intended to provide the Ontario Energy Board (OEB) and interested parties with information on the impact on IGUA's members of the allocation of Panhandle Reinforcement costs to rate classes as proposed by Union in this 2018 rate application (Status Quo Allocation) compared to the impact that would result from adoption of the allocation methodology proposed by Union in the application for leave to construct the Panhandle Reinforcement [EB-2016-0186] (Union Proposed Allocation).

2. This evidence is informed by the circumstances of 4 IGUA member companies, all of whom have significant gas consuming facilities served via Union's St. Clair System. The companies are:

   (a) ArcelorMittal Dofasco (Dofasco)

   (b) ARLANXEO Canada Inc. (ARLANXEO)

   (c) INEOS Styrolution Canada Limited (Styrolution)

   (d) Suncor Energy Inc. (Suncor)

3. In aggregate, these companies have a daily contract gas demand of 5.172 million cubic metres, and consume almost 2 billion cubic metres of gas per year, almost all of which is

delivered via Union's St. Clair system and almost none of which contributes to the design day demand on the Panhandle system.

4. In the Panhandle Reinforcement leave to construct proceeding, Union proposed to allocate the costs of the Panhandle Expansion to rate classes based on Panhandle System design day demands of each rate class. Union's position in the Panhandle Reinforcement leave to construct proceeding was that allocation of Panhandle Expansion costs to rate classes based on Panhandle System design day demands *"better reflects the principles of cost causality during the remainder of the IRM term than the current Board-approved methodology"*.[1]

5. The Status Quo Allocation methodology allocates costs to rate classes based on combined Panhandle System and St. Clair System design day demand of each rate class. With the addition of the significant Panhandle Reinforcement costs, which are related only to the Panhandle System, and no change to the cost of the St. Clair System, Union's position was that the use of the combined system for cost allocation purposes *"no longer reflects the costs to serve the customer on each respective transmission system"*.[2]

6. Union went on in its Panhandle Reinforcement application evidence to note that:

> *The 2018 [Panhandle Reinforcement] Project costs of approximately $27.2 million represents a significant increase over the 2013 Board-approved total combined [Panhandle and St. Clair] system costs of $7.1 million.*[3]

ARLANXEO

7. ARLANXEO is a leading specialty chemicals company. The core business of ARLANXEO is the development, manufacturing and marketing of plastics, rubber, intermediates and specialty chemicals.

[1] EB-2016-0186, Exhibit A, Tab 8, page 7, lines 9-11.
[2] EB-2016-0186, Exhibit A, Tab 8, page 7, lines 1-6.
[3] EB-2016-0186, Exhibit A, Tab 8, page 7, lines 6-7.

8. ARLANXEO has a manufacturing facility in Sarnia. The facility produces synthetic rubber; mainly butyl rubber and halogenated rubber. The facility also manufactures fossil resources.

9. ARLANXEO employs about 400 people at the facility.

10. ARLANXEO is also a partner in the Sarnia Regional Co-Generation Project (SRCP). The SRCP is owned and operated by TransAlta. Suncor, ARLANXEO and Nova Chemicals are partners in the project and deliver natural gas to the facility and purchase steam and power from it.

11. None of ARLANXEO's gas demand contributes to design day demand on the Panhandle System.

Dofasco

12. Dofasco plays a key role in North America's advanced manufacturing supply chain working with the top automotive, energy, packaging and construction brands to develop lighter, stronger and more sustainable products – from cans to cars.

13. Founded in 1912, Dofasco's main facility is located in Hamilton, and is Hamilton's largest private sector employer with more than 5,000 employees. Dofasco's Hamilton facility ships 4.5 million net tons of high quality flat carbon steel annually.

14. Dofasco also has a small galvanizing facility in Windsor Ontario, the gas demand for which does contribute to design day demand on the Panhandle System. The gas volume consumed at Dofasco's Windsor facility is approximately 1.5% of its total Ontario gas demand.

INEOS Styrolution

15. INEOS Styrolution is the global leader in styrenics, operating 4 world scale styrene monomer facilities; one of which is located is located in Sarnia, Ontario. Styrene is a raw material used to manufacture styrenics based polymers used in the manufacturing of

automotive, electronics, household, construction, healthcare, packaging and toys/sports/leisure products. It is also used as an ingredient in many other applications like tires, coatings (paint), toner, fiberglass, structural foams, etc.

16. INEOS Styrolution employs approximately 120 people directly or by contract in its Sarnia operations.

17. INEOS Styrolution is an indirect partner in the Sarnia Regional Cogeneration Project (SRCP) and delivers gas to that facility.

18. None of INEOS Styrolution's gas demand contributes to design day demand on the Panhandle System.

Suncor

19. Suncor is an integrated energy company whose Sarnia refining and marketing operations provide a vital link between the Canadian resource base and the North American energy market.

20. Suncor has 5 facilities located in Union's delivery franchise area that use gas as an input.

    (a) Suncor's 85,000 barrel per day Sarnia refinery produces gasoline, kerosene, jet and diesel fuels.

    (b) As noted above, Suncor is also a partner in the SRCP, and delivers gas to that facility.

    (c) Suncor has a long term natural gas supply agreement with Air Products Canada Limited for the production of hydrogen at Air Products' 150 St. Clair Parkway, Corunna facility.

    (d) Suncor has an ethanol plant in St. Clair Township, which is Canada's largest ethanol facility. The facility opened in June, 2006 and has a current production capacity of 400 million litres per year.

    (e) Suncor also has a terminal in Oakville, which provides a vital link between western crude and eastern markets. With its vast storage capability, refined products are gathered and re-distributed to eastern customers via rail, truck and pipeline networks.

21. Together these 5 facilities employ approximately 1,200 people.

22. None of Suncor's gas demand contributes to design day demand on the Panhandle System.

Panhandle Expansion Cost Impacts

23. Each of the 4 Sarnia area industrials described above are served under Union's T2 rate class, and each will experience a major cost impact as a result of inclusion in 2018 rates of the costs of the Panhandle Reinforcement. This is true regardless of whether Panhandle Reinforcement costs are allocated using the Status Quo Allocation or the Union Proposed Allocation.

24. Each of these 4 companies made inquiries of Union in order to determine the impact on their annual Union related costs of one Panhandle Reinforcement cost allocation approach compared to the other.

25. In deference to the commercial sensitivity to each of these companies of information on their annual gas costs, this evidence provides the aggregated impact of the Status Quo Allocation compared to the Union Proposed Allocation.

26. Based on the information provided by Union, in each case consistent with the expectations and information of the subject IGUA member:

(a) Using the Status Quo Allocation, the aggregate total 2018 gas delivery costs forecast for these 4 T2 customers would be approximately $11.769 million.

(b) Using the Union Proposed Allocation, the aggregate total 2018 gas delivery costs forecast for these 4 T2 customers would be approximately $10.843 million.

(c) The aggregate difference between the two allocation methodologies, for these 4 large T2 gas customers who do not contribute to the design day demand which the Panhandle Reinforcement was built to address, is approximately $926,200 in 2018 (8.54% of the gas delivery costs of these 4 customers based on the Union Proposed Allocation[4]).

[4] ($926,200 from paragraph 26(c)/$10.843 million from paragraph 26(b)) x 100 = 8.54%.

Conclusion

27. Even under the Union Proposed Methodology, and taking into account all capital pass-throughs for 2018, T2 customers would receive a 2018 capital pass-through allocation of more than $7.8 million and would see a rate increase in 2018 of more than 9%.[5]

28. If the Status Quo Allocation of Panhandle Reinforcement costs is maintained in 2018, T2 customers will receive a 2018 capital pass-through allocation of approximately $11.4 million and see a rate increase of 16.2%.[6]

29. If the Status Quo Allocation of Panhandle Reinforcement costs is maintained in 2018, Dofasco, ARLANXEO, Styrolution and Suncor, who (with one immaterial exception) do not utilize the Panhandle System for gas delivery, will face an <u>additional</u> 8.5% increase, worth almost $1 million to them in aggregate, in gas delivery costs in 2018.

30. This is a very material impact for, and a significant concern of, IGUA's Sarnia area members.

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[5] Exhibit B.IGUA.2, Attachment 1, page 1, line 15.
[6] Exhibit B.IGUA.2, Attachment 1, page 1, line 15.