

August 28, 2018

BY COURIER & RESS

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

**RE: EB-2018-0013 – Union Gas Limited (“Union”) – Kingsville Transmission
Reinforcement Project – Reply Argument**

Pursuant to the Ontario Energy Board’s (“the Board”) Procedural Order No.3, please find attached Union’s Reply Argument in the above-noted proceeding.

The attached will be filed in RESS and copies will be sent to 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
Specialist, Regulatory Initiatives

Encl.

cc: C. Keizer, Torys
M. Seers, Torys
EB-2018-0013 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.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 Town of Lakeshore and the Town of Kingsville in the County of Essex;

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 Kingsville Transmission Reinforcement Pipeline Project.

REPLY SUBMISSIONS OF UNION GAS LIMITED

1. These are the reply submissions of Union Gas Limited (“Union”) with respect to the above matter.
 - A. *Overview*
2. In response to increasing natural gas demand growth in the Kingsville-Leamington market area as well as increasing demand on the overall Panhandle Pipeline System (“Panhandle System” or “Panhandle Transmission System”), Union is proposing to construct approximately 19 kilometres of NPS 20 pipeline from an interconnect at the existing NPS 20 Panhandle Line in the Town of Lakeshore to a new station in the Town of Kingsville (“Proposed Pipeline” or “the Kingsville Project”).¹
3. No concerns were raised by any parties related to the leave to construct aspects of this application. Board Staff and the Ontario Greenhouse Vegetable Growers (“OGVG”) support the Kingsville Project.

¹ Exhibit A, Tab 4, p.1, Figure 4-1

4. Board staff at page 3 of their submission summarized:

In OEB staff's view, the Proposed Project is a transmission asset that provides broad system benefits across the Panhandle System rather than to a specific local area or segment of customers. Union's forecast growth, which it submits supports the need for the Project, is spread across the region... The Project's strategic location addresses both a constraint in the Kingsville-Leamington high-pressure distribution system and a constraint in the Windsor area. OEB staff submits that it is appropriate that Union recover costs from all customers in a manner consistent with the OEB "Economic Test for Transmission Line Applications" (E.B.O. 134), given that it is a transmission asset with broad system benefits.

5. Kitchener Utilities in its submission took no position on Union's leave to construct request.
6. The Industrial Gas Users Association ("IGUA") recognized the importance of expanding gas delivery infrastructure to support economic growth². In fact, at page 1 of their submission, IGUA stated, "*Union's proposed Kingsville expansion is an appropriate expansion and will increase Union's capacity to serve customers in the Panhandle System market area, supporting a reasonable cost supply of energy and associated economic growth.*" However, much of IGUA's submission focused on a concern specific to cost responsibility for the Kingsville Project.
7. The Design Day capacity on the Panhandle System is forecast to be reached earlier than forecast in EB-2016-0186. In EB-2016-0186, the Ontario Energy Board (the "Board") approved the leave to construct of an expansion to the Panhandle System (the "Approved Panhandle Project"). Also in EB-2016-0186, 2022 was originally identified as the timing of the Kingsville Project. The change in forecast of demand growth accelerates the timing of the Kingsville Project from 2022 to 2020. The Kingsville Project as proposed is designed to reliably serve these increased forecast demands for firm service not only in the Kingsville-Leamington market area but across the Panhandle System Market. Coincidental to the increased demand is a constraint to the Leamington-Kingsville high pressure distribution system. This constraint prevents customers from attaching even though Panhandle System capacity brought about by the Approved Panhandle Project is available. Moving the Kingsville Project's in-service date from 2020 to 2019 alleviates

² IGUA submission, p.5

the distribution constraint and avoids the need to install significant distribution system reinforcement in 2019.

8. IGUA has mischaracterized this fact to assert that the Kingsville Project has a distribution function such that some form of a contribution in aid of construction (“CIAC”) is triggered and should be paid by certain customers as a contribution to project costs. This assertion is based upon an incorrect factual premise. As a result, this assertion, as well as the proposed calculation of a CIAC proposed by IGUA, should be rejected by the Board and the leave to construct should be granted as requested by Union and as supported by others. For the purpose of this Reply, Union will focus on responding to IGUA submissions below.

B. Reply to IGUA’s Submissions

9. IGUA’s position is based upon the premise that the Kingsville Project partially serves a distribution function or use and as such the Board should require some form of CIAC from certain customers to support the Project. However, IGUA’s factual premise for this assertion is incorrect. In fact, IGUA ignores the following key facts:
 - The Kingsville Project is a reinforcement of the Panhandle Transmission System and will have no directly connected customers. (Board Panel Question 3)
 - Many transmission reinforcement projects have the ability to increase capacity of downstream distribution systems depending upon where the transmission reinforcement facilities are constructed and/or where the distribution systems are connected to the transmission system. (Board Panel Question 3)
 - The Kingsville Project is a transmission project that increases capacity on the Panhandle System to meet forecasted demand growth generally that arises from a variety of sources over a large geographic area of the Union Gas franchise. No specifically identified customer or customers is driving the Kingsville Project. As the forecast incremental demand extends throughout the service area affected, the increased capacity is available on a first come, first served basis. (Board Panel Question 4)

- Commercially, although a portion of the incremental capacity from the Kingsville Project will serve forecasted demand growth in the Kingsville area, the Kingsville Project will also serve growing demand from Chatham through to Windsor. (Board Panel Question 4)
 - This is not a distribution project that connects a single, or even a small number of identifiable customers. It provides capacity on the Panhandle Transmission System that feeds a significant number of existing and potential customers over a wide geographic area. (Board Panel Question 4)
 - For clarity, once the Kingsville Project is in service, additional investment in distribution facilities will be required to attach all of the forecasted demand underpinning the Kingsville Project. These customers will provide incremental distribution revenues. The Economic Test set out in the E.B.O. 188 Report was designed to evaluate this type of investment, where there are incremental distribution revenues and incremental costs, and will be used by Union to evaluate the distribution expansions that the Kingsville Project enables. (Board Panel Question 4)
10. Ignoring the foregoing, IGUA has focused only on the fact that the Kingsville Project offsets costly distribution system reinforcement projects that will no longer be required once the Kingsville Project is in-service. The cost avoided is \$10.4 million in 2019. IGUA wrongly points to this as evidence of a distribution function that should trigger the need for CIACs from directly served customers. However, IGUA has mischaracterized the nature of the relationship between the Kingsville Project and the distribution reinforcement avoided. The avoidance of the distribution reinforcement is an operational result and benefit of the Kingsville Project and it is not a particular contractual or service request that underpins or triggers the Kingsville Project. Instead, the trigger is the overall incremental demand and across the Panhandle System that advances the need for the Kingsville Project from 2022 to 2020.
11. From a system perspective, Union forecasts significant growth on the Panhandle System. This growth has exceeded what was forecast in EB-2016-0186. Union stated in EB-2016-0186 that the Kingsville Project (although slightly different in scope) was required in 2022 in order to continue to meet the ongoing need of the Panhandle System Market.

Based on more recent demand forecasts, the existing pipeline facilities will no longer be sufficient to meet Market Design Day demand in 2020. Hydraulic analysis shows that the operational requirements of the Panhandle System will not be met for Winter 2020/2021 based on continued forecasted growth to a Design Day demand of 669 TJ/d and no changes to existing facilities. In order to continue to provide service to new general service and contract customers, additional Panhandle System capacity is required by November 1, 2020. (Ex. A, Tab 7, p. 10)

12. Separate and apart from the foregoing growth in Union's forecast for the Panhandle System, are the above noted physical constraints to Union's distribution system that prevent the growth previously forecasted as justification of the Approved Panhandle Project in EB-2016-0186 from being fully served. (Ex A, Tab 7, p.10). These constraints prevent customers from attaching even though Panhandle System capacity is available following the expansion in EB-2016-0186. The NPS 36 Panhandle Reinforcement in the Approved Panhandle Project greatly increased system pressures along the NPS 20 Panhandle Line between Dawn and Sandwich. However the existing laterals (Essex, Leamington North, Leamington North Reinforcement (Mersea), Leamington North Loop) from the NPS 20 Panhandle Line to the distribution system are not sufficiently sized to serve the increased demand. In other words, there is a large pressure loss in the laterals between the NPS 20 Panhandle Line and the distribution system. (Ex. A, Tab 8, p.2) Due to this pressure loss, a significant amount of distribution reinforcement is required to be constructed between the County Rd 18 Station and the Kingsville Gate Station to meet the market demands. Distribution reinforcement would be required every year until a pipeline is built between the NPS 20 Panhandle Line and the Town of Kingsville.
13. Construction of the Kingsville Project will decrease the pressure loss on the laterals between the NPS 20 Panhandle Line and the distribution system thus alleviating the constraint on the Panhandle System and allowing demand to be served. The Kingsville Project will also bring a high pressure source of gas close to the location of the distribution constraint at the Kingsville Gate Station thus alleviating this constraint. Moving the Kingsville Project from 2020 to 2019 will alleviate the distribution constraint and offset the installation of significant distribution system facilities that will no longer be required and no longer be beneficial to the distribution system capacity after the

installation of the Kingsville Project in 2020. By advancing the Kingsville Project to 2019, \$10.4 million is the cost of the distribution reinforcement avoided.

14. The volume that would drive the above noted distribution reinforcement in 2019 to permit connections is the volume that was previously forecasted to be connected in respect of the Approved Panhandle Project in EB-2016-0186. This volume exists independently of the Kingsville Project. The provision of service to accommodate this demand is not a driver of the Kingsville Project. The distribution constraints only motivate a change in the timing of the Kingsville Project but not the Kingsville Project itself.
15. As a result, it is incorrect for IGUA to use the foregoing physical and operational circumstance to assert that the distribution volume that would have otherwise been connected as part of the Approved Panhandle Project is underpinning and driving the Kingsville Project such that a CIAC is required.
16. In support of its claim, IGUA cites an excerpt from Union's response to Board Panel Question 3 which in its view demonstrates Union's position that the Project does in fact serve distribution and transmission needs. Specifically, the excerpt included at p. 4 of IGUA's submission reads as follows:

"The Proposed Project, because of its strategic location, allows both the Panhandle Transmission System and the downstream distribution systems to continue to serve the growth in system demands most efficiently, while offsetting costly distribution system reinforcement projects that will no longer be required once the Project is constructed (avoids \$10.4 million in distribution reinforcement costs)."
17. Union submits that this statement and the excerpt used by IGUA to support this statement are not described fully. Considering the foregoing in isolation from the remainder of the response to Board Panel Question 3, is not appropriate since the proper context is not provided. If read in its entirety (particularly the initial paragraph), Union's response to Board Panel Question 3 supports why the Kingsville Project is in fact a transmission pipeline. To be complete, the initial paragraph to Board Panel Question 3 reads as follows:

The Kingsville Transmission Reinforcement Project is a reinforcement of the Panhandle Transmission System and will have no directly connected customers. The Proposed Project is a transmission pipeline and, consistent with all transmission pipelines, it has an

ancillary function of serving distribution needs. Many transmission reinforcement projects have the ability to increase capacity of downstream distribution systems depending upon where the transmission reinforcement facilities are constructed and/or where the distribution systems are connected to the transmission system.

18. As a transmission pipeline, Union does not dispute the Kingsville Project has an “ancillary” impact on serving distribution needs. In fact, as stated above this is the case for transmission pipelines. Union’s response to Board Panel Question 4, further supports the fact the Kingsville Project is a transmission pipeline. It notes the Kingsville Project’s primary intent is to *“increase capacity on the Panhandle System to meet forecasted demand growth generally that arises from a variety of sources over a large geographic area of the Union Gas franchise. No specifically identified customer or customers is driving the Project.”*
19. Despite this fact, IGUA uses this same argument to question the economic evaluation framework applied by Union. Union, as supported throughout the evidentiary portion of this proceeding, used the Economic Tests set out in the Board’s report issued in 1987 in E.B.O. 134 (the “E.B.O. 134 Report”) for the purposes of evaluating the Kingsville Project.³
20. IGUA in its submission is recommending an alternate economic evaluation framework, one that encompasses its wrongly premised “multiple uses” position. IGUA does not accept that the Kingsville Project provides system-wide benefits to the Panhandle Transmission System. At p. 2 of its submission IGUA asserts that the incremental contract demands specific to the Kingsville Project *“largely relate to a discrete group of Kingsville and Leamington area customers (primarily greenhouses).”* and that these customers should be required to pay a CIAC.
21. Union does not agree with IGUA’s assertion that the Kingsville Project directly serves these select customers. In fact, in response to Board Panel Question 4 Union clearly states the Kingsville Project does not connect any distribution customers. This response goes on to read:

³ Response to Board Panel Question 4

“This is not a distribution project that connects a single, or even a small number of identifiable customers. It provides capacity on the Panhandle Transmission System that feeds a significant number of existing and potential customers over a wide geographic area. This is not a typical distribution project, with a specific customer need and clearly identifiable costs, where a potential aid to construct would apply.”

In fact, the capacity created by the Project serves customer demand growth across the entire Panhandle Transmission System. The demand forecast split between general service and contract is the following:

- (i) General Service: 7 TJ/day
- (ii) Contract Customers: 61 TJ/day
- (iii) Of the 61 TJ/day of forecast contract demand, Union has executed contracts with greenhouse customers for 10 TJ/day as of June 2018. As per the pre-filed evidence, Union had executed contracts for 5 TJ/day of capacity (see Exhibit A, Tab 5, p. 7, lines 12-14). (Board Panel Question 6)

- 22. The remaining capacity will be used to serve general service and/or contract customers on a first come first served basis. (Board Panel Question 6)
- 23. Notwithstanding this evidence, on the incorrect premise that the Kingsville Project serves both a transmission and distribution function, IGUA included an alternate approach to the economic evaluation of the Kingsville Project. This approach is fundamentally flawed since as noted above, it is based on an incorrect application of the facts. In particular, a primary aspect of the cost allocation example provided by IGUA is the \$10.4 million avoided cost described above⁴. This as noted is not a driver of the Kingsville Project, meaning that the example provided is without basis.
- 24. On a related matter, IGUA’s decision to include this alternate economic evaluation approach for Union to comment on is, in Union’s view, not appropriate from a process perspective. As noted earlier, IGUA did not challenge Union’s evidence. The interrogatories IGUA asked of Union were limited and in fact, two of the three questions asked by IGUA were deemed out of scope based on the Board’s earlier determination (February 27, 2018 letter) that Union’s request for recovery of the Kingsville Project’s net

⁴ IGUA submissions, p 6, para. 18 (d)

revenue requirement for 2019 to 2028 through the Incremental Capital Module (“ICM”) was premature. In Union’s view, presenting this alternative approach with no evidentiary foundation and asking for comment is not appropriate.⁵

25. IGUA’s views on the economic evaluation approach for the Kingsville Project are not founded on sound, established economic feasibility principles and are based upon an incorrect factual premise. The calculations should be rejected by the Board.
26. Furthermore, because of the incorrect premise on which it is based, IGUA’s proposal creates unfairness between customers. Union noted “*applying an aid to KTRP for Panhandle Transmission System capacity would result in a geographic group of customers paying an aid while consuming Panhandle Transmission System capacity (those at the terminus of KTRP) while a similar customer consuming the same amount of Panhandle Transmission System capacity but not located at the terminus would not incur the aid cost. Such a situation may result in customer perception of bias or cost disadvantage to one group of customers relative to another.*” (Board Panel Question 9) As well, because no customer is connected to the Kingsville Project, IGUA’s proposal does not correctly reflect the concept of a CIAC or its appropriate use. In the typical circumstance, for each connection a PI is determined based on the revenue stream and the cost specific to the customer to connect the load. These connection costs are directly related to attaching the customer and are the responsibility of the customer⁶. IGUA’s proposal does not reflect this circumstance.

C. Conclusion

27. This application is brought in response to new forecast market demands in the Kingsville-Leamington market area and the overall Panhandle System Market. The Kingsville Project is in the public interest and should be approved by the Board. The Kingsville Project is the best alternative and provides many benefits including:
 - (a) is the lowest cost (best NPV) to customers;

⁵ EB-2016-0186 Panhandle Reinforcement Decision and Order, p.3 (dated February 23, 2017)

⁶ Board Panel Question 7

- (b) provides market assurance in meeting the growing near term firm demands along the Panhandle Transmission System for the next five years;
 - (c) positions the Panhandle Transmission System and the pipelines connecting to the distribution system to meet the long term growth in the most efficient manner by reducing the pressure loss between the NPS 20 Panhandle Line and the distribution system and re-distributing load from the Leamington North laterals, which are currently nearing capacity;
 - (d) eliminates the need for costly and avoidable distribution system reinforcement projects; and
 - (e) considers long-term system expansion plans for the Panhandle System.
28. The Kingsville Project is a transmission project appropriately evaluated under E.B.O. 134. The submissions of IGUA are wrongly premised and should not be accepted by the Board.

All of which is respectfully submitted, this 28th day of August, 2018.

UNION GAS LIMITED
By its Counsel Torys LLP

[original signed by]

Charles Keizer