EB-2022-0200

ONTARIO ENERGY BOARD

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

AND IN THE MATTER OF an Application by Enbridge Gas Inc., pursuant to section 36(1) of the *Ontario Energy Board Act, 1998,* for an order or orders approving or fixing just and reasonable rates and other charges for the sale, distribution, transmission and storage of gas as of January 1, 2024

COMPENDIUM OF THE SCHOOL ENERGY COALITION
(EGI - DP Capacity Turnback Risk & Historic PDO/PDCI Panel)

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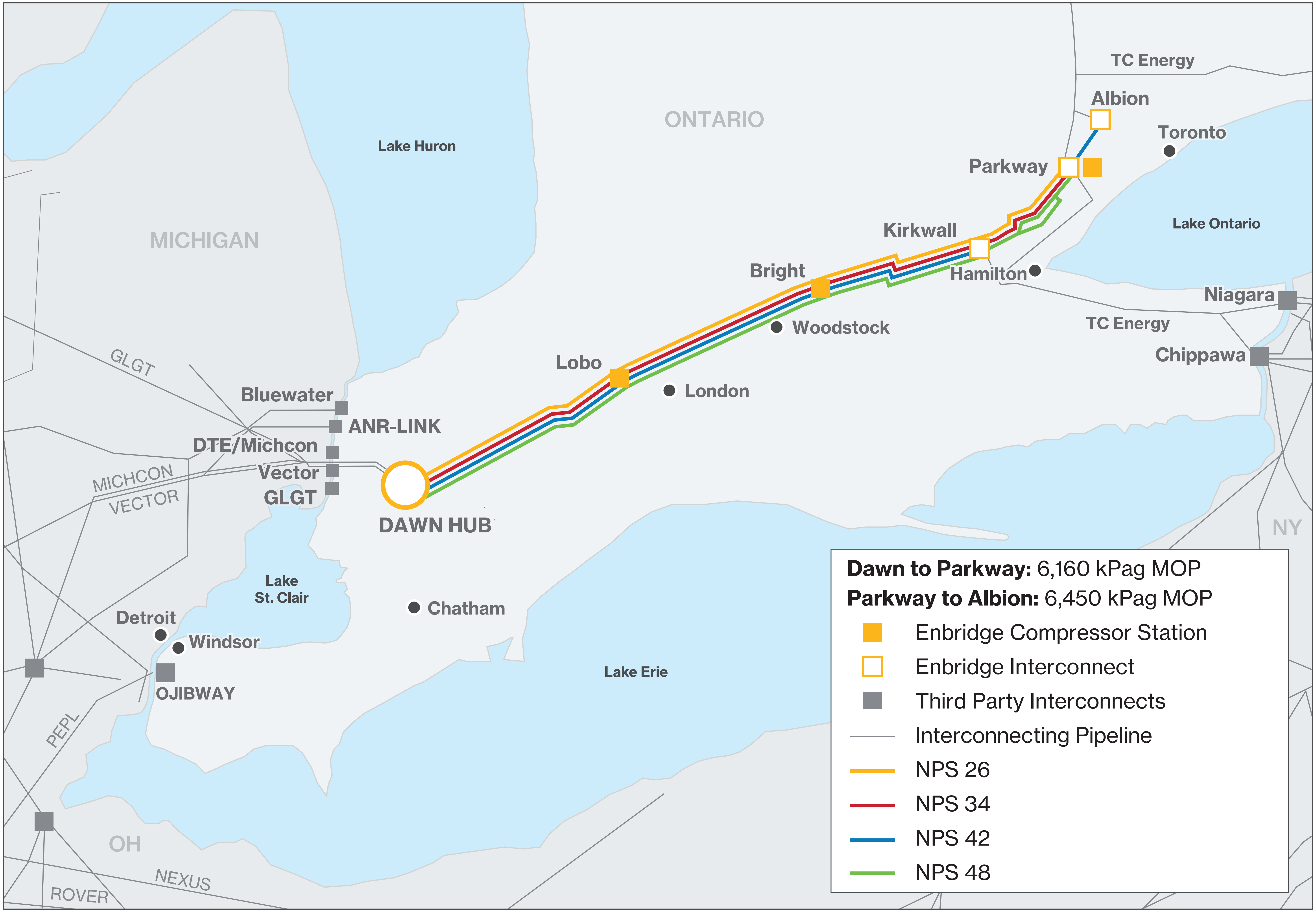

TC Energy
Albion
Toronto
ONTARIO
Lake Huron
Parkway
Lake Ontario
Kirkwall
MICHIGAN
Bright
Hamilton
Niagara
Woodstock
TC Energy
Chippawa
GLGT
Lobo
London
Bluewater
ANR-LINK
DTE/Michcon
MICHCON
Vector
VECTOR
GLGT
DAWN HUB
NY
Lake St. Clair
Chatham
Detroit
Windsor
OJIBWAY
Lake Erie
PEPL
OH
NEXUS
ROVER
Dawn to Parkway: 6,160 kPag MOP
Parkway to Albion: 6,450 kPag MOP
Enbridge Compressor Station
Enbridge Interconnect
Third Party Interconnects
Interconnecting Pipeline
NPS 26
NPS 34
NPS 42
NPS 48

2	Ex-Franchise	30	27	29
3	Total	100	98	100

2. Allow buy-out payments in reverse open seasons.

The Storage and Transportation Access Rule (STAR) requires EGI to hold a reverse open season to allow existing customers to permanently turn back capacity before undertaking an expansion in order to avoid unnecessary investments.[30] One shortcoming of EGI's reverse open seasons is that in a situation where the cost to expand facilities is higher than the average embedded cost that EGI uses to set rates, an existing customer may be unwilling to turn back capacity, even though the value that the customer places on the capacity is lower than EGI's cost to build. However, the same customer may be willing to relinquish capacity in return for a buyout payment that would still allow EGI to meet its projected requirement at a lower total cost.

Including a buyout option in reverse open seasons would be consistent with the Integrated Resource Planning (IRP) framework, which requires EGI to consider demand side IRP Alternatives to meet system needs. Reducing ex-franchise customer demand for Dawn Parkway System capacity by buying out an existing contract would be similar to other targeted demand-side management measures in which customers are compensated for reducing gas use during periods of high demand. Allowing customers to submit a buyout offer in a reverse open season is not explicitly addressed by STAR, but this change would support the objective of avoiding unnecessary expansions.

[30] STAR Section 2.2.1(iii) states: "A transmitter offering new capacity shall offer a reverse open season to allow existing firm transportation service shippers the opportunity to permanently turn back existing firm transportation capacity to avoid unnecessary expansions."

Response to EGI Interrogatory

Reference: Exhibit M4, page 14

At page 14, North Side Energy states: "To reduce the risk of undue cost shifting, EGI should put limits on the ex-franchise demands that will be used to allocate Dawn Parkway System costs at the next rate rebasing, based the requirements forecast that EGI uses to obtain Board approval for a Dawn Parkway System expansion."

Please confirm this recommendation is applicable to the next Rebasing proceeding, post 2028, and not the 2024 to 2028 timeframe of this Application. If not confirmed, please explain what is being sought in this Application. Please also explain if the proposal would only apply if a subsequent expansion of the Dawn Parkway System was approved during the IR Term.

Response:

Not confirmed. Because this proposal would modify EGI's cost allocation mechanism, which is under review in this proceeding, and the impact on rates at the next rebasing would be tied to facilities expansion decisions that occur during the upcoming incentive rate-making (IRM) period, North Side Energy believes that the current rate proceeding is an appropriate time for the Board to direct EGI to implement a proposal of this type. EGI is correct that this proposal would not affect rates until the next rebasing, and that it would only cause rates to be different if an expansion of the Dawn Parkway System is approved during the IRM term.

Response to EGI Interrogatory

Reference: Exhibit M4, page 15

At page 15, North Side Energy states: "Including a buyout option in reverse open seasons would be consistent with the Integrated Resource Planning (IRP) framework, which requires EGI to consider demand side IRP Alternatives to meet system needs."

Please confirm this recommendation is applicable to the next Rebasing proceeding, post 2028, and not the 2024 to 2028 timeframe of this Application. If not confirmed, please explain what is being sought in this Application.

Response:

Confirmed. For a further explanation, please see the response to M4.EGI-24.

ENBRIDGE

Investment Summary Report

Investment Code	Report Start Year	Number of Years
100699	**2023**	**10**

Investment Name

Dawn Parkway Expansion Project (Dawn-Enniskillen NPS 48)

Investment Description

Issue/Concern: In response to increased natural gas demand growth along the Dawn Parkway System, the Kirkwall to Hamilton Expansion has a forecast in-service date of 2029 to 2030 and will provide reliable, secure, economic natural gas capacity to meet the growing design day demand of the Dawn Parkway Transmission system which serves both in- and ex-franchise markets.

Assets: Install approximately 17.2 km of NPS 48 internally-coated pipeline from Dawn Compressor Station (10G-301) to Enniskillen Valve Site (11H-301V) on the Dawn Parkway System.

Related Programs: These facilities are incremental to the Kirkwall to Hamilton Expansion (#48654) and timing is dependent on the Dawn Parkway System demands.

Recommended Alternative Description

Scope of Work: Install approximately 17.2 km of NPS 48 internally-coated pipeline from Dawn Compressor Station (10G-301) to Enniskillen Valve Site (11H-301V) on the Dawn Parkway System.

Resources: Projects group to provide project management support from design and planning phase to project execution.

Solution Impact: Capacity is available on the Dawn Parkway System to meet in-franchise growth and customer demand.

Project Timing & Execution Risks:
-Schedule delays due to right-of-way access for survey, ladn aquisition, environmental studies, permitting, and/or issuance of OEB Leave to Construct may put at risk the planned in-service date.
-Further analysis for potential IRPAs.
-This project will follow Kirkwall to Hamilton (48654). It will be based upon studies done by the Transmission System Planning identifying a need for expansion based upon the demands from the study.
-Estimate/ Forecast does not include MOP Upgrade or Dawn Station Work.

Investment Type	Project (EGI)	Planning Portfolio	UG - Core - Transmission Pipe & Underground Storage - Growth
Investment Stage	Long Term Planning		

Investment Overview

1. Project Information	State/Province	Ontario
	Operating Area (EGI)	Div_04 - London
	Asset Program (EGI)	TPS - Growth
	Asset Class (EGI)	Transmission Pipe & Underground Storage
2. Compliance	Compliance Investment	No
	Compliance Justification & Code	
3. Must Do	Must Do Investment	Yes
	Intolerable Risk (EGI)	No
	Third Party Relocation (EGI)	No
	Program work with sufficient history and risk to warrant continuation (EGI)	No

Spend Profile

Name	Net Base Capex O (CA)
Dawn Parkway Expansion Project (Dawn-Enniskillen NPS 48)	$ 246,634,252

Account Type	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Base CAPEX O	$ -	$ -	$ -	$ -	$ 24,612,151	$ 49,222,260	$ 148,187,690	$ 24,612,151	$ -	$ -
Contributions	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Dismantlement	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Report Generation Date: 5/30/2022

ENBRIDGE

Investment Summary Report

Investment Code	Report Start Year	Number of Years
48654	2023	10

Investment Name

Dawn Parkway Expansion Project (Kirkwall-Hamilton NPS 48)

Investment Description

Issue/Concern: In response to increased natural gas demand growth along the Dawn Parkway System, the Kirkwall to Hamilton Expansion has a forecast in-service date of November 1, 2026 and will provide reliable, secure, economic natural gas capacity to meet the growing design day demand of the Dawn Parkway Transmission system which serves both in- and ex-franchise markets.

Assets: The Kirkwall-Hamilton Expansion Project consists of 10.2 km of NPS 48 pipeline from the Kirkwall Valve Site to the Hamilton Valve Site.

Related Programs: N/A

Recommended Alternative Description

Scope of Work: System installation of approximately 10.2 km of NPS 48 internally-coated pipeline from Kirkwall Valve Site (17V-302) to Hamilton Valve Site (18W-601V) on the Dawn Parkway System.

Resources: Projects group to provide project management support from design and planning phase to project execution.

Solution Impact: Capacity is available on the Dawn Parkway System to meet in-franchise growth and customer demand.

Project Timing & Execution Risks: In March 2021, this project was pushed out to 2025 and is forecast for November 1, 2026 in-service date. This project was filed with the Ontario Energy Board (OEB); but due to the global pandemic, there was demand uncertainty and the project ultimately was paused. Further analysis for potential IRPAs. Schedule delays due to right-of-way access for survey, environmental studies, land acquisition. permitting, and/or issuance of OEB Leave to Construct may put at risk the planned in-service date.

Investment Type	Project (EGI)	Planning Portfolio	UG - Core - Transmission Pipe & Underground Storage - Growth
Investment Stage	Executing		

Investment Overview

1. Project Information	State/Province	Ontario
	Operating Area (EGI)	Div_16 - Hamilton
	Asset Program (EGI)	TPS - Growth
	Asset Class (EGI)	Transmission Pipe & Underground Storage
2. Compliance	Compliance Investment	No
	Compliance Justification & Code	
3. Must Do	Must Do Investment	Yes
	Intolerable Risk (EGI)	No
	Third Party Relocation (EGI)	No
	Program work with sufficient history and risk to warrant continuation (EGI)	No

Spend Profile

Name	Net Base Capex O (CA)
Dawn Parkway Expansion Project (Kirkwall-Hamilton NPS 48)	$ 192,008,405

Account Type	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Base CAPEX O	$ -	$ 19,000,000	$ 38,247,415	$ 115,027,169	$ 16,000,000	$ -	$ -	$ -	$ -	$ -
Contributions	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Dismantlement	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Report Generation Date: 5/30/2022

Line No.	Investment Code	Appendix A Investment Name	AMP Planning Group	2023-2032 Forecast Including Overheads	2023-2032 Overhead Allocation	In Service Date
	(a)	(b)	(c)	(d)	(e)	(f)
	Asset Class (EGI) - Compression Stations					
1	48715	Dawn C Compression Lifecycle	Significant Invetsments (>$10M) - Fixed Timing	$166,338,152	$41,178,152	2027
2	48732	Waubuno Compression Lifecycle	Value Driven - Fixed Timing	$29,218,620	$6,141,720	2025
3	100901	Dawn to Corunna	Value Driven - Fixed Timing	$200,337,430	$45,845,900	2023
4	734634	Dawn to Corunna (Dawn Tie-in)	Value Driven - Fixed Timing	$105,753,129	$23,718,491	2023
	Asset Class (EGI) - Distribution Pipe					
5	10088	NPS 20 Lake Shore Replacement (Cherry to Bathurst)	Value Driven - Fixed Timing	$20,896,371	$4,797,127	2022
6	10290	St. Laurent Phase 3 - Coventry/Cummings/St. Laurent (Plastic)	Value Driven - Fixed Timing	$25,033,190	$5,478,112	2024
7	10293	St. Laurent Phase 3 - North/South (NPS12/16 Steel)	Value Driven - Fixed Timing	$121,804,143	$26,503,360	2025
8	10294	St. Laurent Phase 4 - East/West (NPS12 Steel)	Value Driven - Fixed Timing	$53,906,876	$11,800,108	2024
9	11443	NPS 12 Martin Grove Rd Main Replacement: Lavington to St. Albans Rd.	Value Driven - Value Framework	$30,613,585	$7,603,920	2026, subject to EDIMP assessment
10	100295	Div_04: NPS 8 Port Stanley, London, Replacement	Value Driven - Fixed Timing	$18,916,863	$4,025,457	2025, subject to EDIMP assessment
11	100339	A10: Wilson Avenue, Toronto, VSM Replacement	Executing - Re-Optimize	$106,992,932	$25,192,932	2026/2031, refer to Exhibit I.2.6- ED-100
12	503350	Moulton Replacement BU	Executing - Re-Optimize	$18,165,905	$3,813,905	2025
13	740604	NPS20 KOL - Parliament St.	Mandatory - Fixed Timing	$13,131,787	$3,014,631	2023
	Asset Class (EGI) - Distribution Stations					
14	13034	SCRW:Station-Renewal In-Place	Mandatory - Fixed Timing	$28,244,162	$6,171,173	2025
15	503369	Lisgar Station	Executing - Re-Optimize	$20,124,611	$4,242,407	2025
16	734676	SARN: 13F-220R Vidal St	Value Driven - Value Framework	$17,192,992	$4,712,992	2031
17	735022	Sarnia Industrial Station 2029 Rebuild	Value Driven - Fixed Timing	$14,849,863	$3,849,863	2029
	Asset Class (EGI) - Growth					
18	1024	NW 6581 Ottawa Reinforcement Phase 2 SRP	Mandatory - Fixed Timing	$70,698,549	$17,209,549	2029
19	30542	SRP_Southeast_Owen Sound_County Rd 40_Reinforcement_NPS12_11800m_4670kPa	Mandatory - Fixed Timing	$33,636,531	$7,236,531	2025
20	30579	SRP_Southwest_Wonderland_New STN & MOP Upgrade	Mandatory - Fixed Timing	$20,506,933	$4,306,933	2025
21	100703	SRP_LUG East_Kingston_Creekford Rd_Reinforcement_NPS8_6200m_6895kPa	Mandatory - Fixed Timing	$45,292,234	$11,283,270	2027
22	736259	Hamilton Reinforcement Project	Mandatory - Fixed Timing	$125,821,854	$26,713,062	2025
23	736975	Enbridge Gas Distribution System Hydrogen Feasibility Study	Value Driven - Fixed Timing	$15,315,942	$3,398,275	2022

Line No.	Investment Code	Appendix A Investment Name	AMP Planning Group	2023-2032 Forecast Including Overheads	2023-2032 Overhead Allocation	In Service Date
	Asset Class (EGI) - LNG					
24	48709	Hagar KVGR and Cycle Mix Cooler	Value Driven - Value Framework	$24,740,190	$5,648,190	2032
25	48714	Hagar Cold Box	Value Driven - Value Framework	$14,401,282	$3,401,282	2032
26	49955	Hagar JVG Compressor Upgrade	Value Driven - Value Framework	$20,873,854	$4,781,854	2032
	Asset Class (EGI) - Real Estate & Workplace Services					
27	3640	Station B New Building	Value Driven - Fixed Timing	$38,590,879	$8,590,879	2025
28	8782	VPC Core and Shell	Value Driven - Value Framework	$35,420,035	$9,420,035	2031
29	100621	Dawn Administrative Centre	Value Driven - Value Framework	$16,349,278	$4,349,278	2028
30	101136	New London Site	Executing - Re-Optimize	$49,500,658	$11,959,058	2026
31	737272	Kennedy Road New Build	Value Driven - Value Framework	$49,647,957	$11,803,457	2026
32	737374	Ottawa - New Building	Value Driven - Value Framework	$46,337,933	$10,498,150	2026
33	737754	Thorold Operations Centre - New Building	Value Driven - Value Framework	$21,533,430	$5,033,430	2026
34	739714	GTA East - New Build - Peterborough	Value Driven - Value Framework	$14,722,478	$3,722,478	2024
35	739715	GTA West - New Build - Halton Hills	Value Driven - Value Framework	$42,675,572	$9,790,356	2026
	Asset Class (EGI) - TIS					
36	102291	Contract Market Harmonization	Value Driven - Value Framework	$19,195,783	$4,335,783	2026
37	102364	Records Management Technology Obsolescence (2024-2026)	Value Driven - Value Framework	$23,566,261	$5,516,261	2026
38	736081	General Service Rebasing Changes	Value Driven - Value Framework	$17,914,329	$3,914,329	2025
39	736942	Contract Market Systems - Technology Obsolescence	Mandatory - Fixed Timing	$69,786,961	$15,776,961	2026
	Asset Class (EGI) Transmission Pipe & Underground Storage					
40	48654	Dawn Parkway Expansion Project (Kirkwall-Hamilton NPS 48)	Mandatory - Fixed Timing	$251,357,572	$63,082,988	2027
41	49758	Panhandle Regional Expansion Project	Mandatory - Fixed Timing	$224,328,497	$47,088,489	2024
42	100086	Panhandle Line Replacement	Value Driven - Fixed Timing	$37,899,145	$8,128,866	2025
43	100699	Dawn Parkway Expansion Project (Dawn-Enniskillen NPS 48)	Mandatory - Fixed Timing	$332,803,728	$86,169,476	2029
44	735972	PREP: NPS 36 looping to Comber Transmission	Mandatory - Fixed Timing	$95,496,455	$25,496,455	2030
45	736923	Panhandle Regional Expansion Project - Leamington Interconnect	Mandatory - Fixed Timing	$118,751,452	$28,443,901	2026
46	740055	Panhandle Regional Expansion Project - Dawn Facilities	Mandatory - Fixed Timing	$92,044,573	$19,910,796	2025

6 TRANSPORTATION AND STORAGE

The OEB has determined that issues raised with respect to review of the Natural Gas Electricity Interface Review (NGEIR) decision[70] and the Storage and Transportation Access Rule (STAR) are outside of the scope of this proceeding. However, as considerable hearing time was devoted to these important issues, the OEB has included a summary of the discussion of these topics, and other background issues in Appendix A. The Findings for this section relate only to two issues:

- The Parkway Delivery Obligation (PDO)
- The treatment of excess storage from the Union Gas legacy system

6.1 Parkway Delivery Obligation

In the 2013 rates proceeding,[71] Union Gas' large volume direct purchase customers requested that Union Gas eliminate the Parkway Delivery Obligation (PDO) and allow customers to deliver gas at Dawn in place of Parkway because the cost to these customers to maintain the obligation exceeded the delivery rate benefit of the obligation. Union Gas' large volume direct purchase customers east of Dawn have an obligation to deliver gas at Parkway (the Parkway Delivery Obligation). The main issue was that Union Gas needed the gas at Parkway and not Dawn, and had planned its gas supply on that basis. In Union Gas' 2014 rates application,[72] the OEB approved a framework for the reduction of the PDO. This approved framework resulted from an agreement between Union Gas and the parties on the PDO issue. As a result of that agreement, Union Gas recovered in rates each year an estimated amount representing the capacity that it could move from Dawn to Parkway based on availability. The estimated foregone revenue as a result of using the transportation capacity to move the needed gas from Dawn to Parkway was recovered from ratepayers.

FRPO noted that the settlement agreement for PDO explicitly intended to keep Union Gas whole through the IRM period. However, FRPO argued that Union Gas has enhanced earnings as a result of the implementation of the PDO and ratepayers are paying twice for the same capacity. Union Gas charged ratepayers for the temporarily

[70] EB-2005-0551, NGEIR Decision with Reasons, November 7, 2006, page 74 and 83.
[71] EB-2011-0210.
[72] EB-2013-0365.

available capacity at an incremental cost to facilitate the PDO reduction. In addition, Union Gas has expanded the Dawn-Parkway system, which has further expanded surplus capacity, the costs of which are already recovered in rates. FRPO claimed that there is an equivalent of 200 TJ of Dawn-Parkway capacity that ratepayers are now paying in rates representing PDO reduction costs. Since the amount is less than the 210 TJ of original surplus, FRPO argued that ratepayers are paying twice for the 200 TJ. Accordingly, FRPO submitted that the ratepayer contribution of $9.7 million in rates representing PDO costs should be removed as a base rate adjustment for Union South customers.

Alternatively, if the OEB was of the opinion that there is insufficient evidence to make such a determination, FRPO submitted that the OEB should order the applicants to file sufficient evidence detailing the costs and recoveries of the Dawn-Parkway system throughout the deferred rebasing period to justify the continuing inclusion of PDO reduction costs. LPMA supported the position of FRPO on the PDO issue.

In reply, the applicants rejected FRPO's claim that ratepayers are paying twice. The applicants submitted that the PDO has been eliminated in precisely the manner contemplated and agreed to by the parties in the PDO settlement agreement. The implementation of the PDO has resulted in in-franchise customers requiring firm Dawn-Parkway capacity on design day that is incremental to the original allocation of Dawn-Parkway costs from the 2013 OEB approved cost allocation methodology. The applicants maintained that in-franchise ratepayers are paying for costs not previously allocated to them; they are not paying twice as claimed by FRPO.

The applicants also rejected the notion that there is surplus or excess capacity. The applicants noted that they are at risk for any surplus capacity as the revenue of that forecast is built into rates. If the applicants fail to meet the forecast, they bear the loss.

OEB Findings

The OEB has determined that there is insufficient evidence to determine whether, as a result of the implementation of the PDO, ratepayers are paying twice for the same capacity. The OEB requires Amalco to track actual costs and amounts recovered through rates related to the PDO during the deferred rebasing period. The OEB at the time of rebasing will review the costs and amounts recovered through rates to ensure that ratepayers are not paying twice for the required capacity and the legacy Union Gas is not enhancing earnings contrary to the intent of the PDO settlement agreement.

ENBRIDGE GAS INC.

Answer to Interrogatory from
Federation of Rental-housing Providers of Ontario (FRPO)

Interrogatory

Reference:

Ex. 4, Tab 7, Schedule 1, pg. 14
AND EB-2017-0306/EB-2017-0307 Exhibit J2.5 Attachments 1 & 2

Preamble:

EGI evidence states: *At the time of Union's 2013 Cost of Service proceeding, 210 TJ/d of excess Dawn Parkway capacity existed relative to the forecast demands of the Dawn Parkway System. The full cost of the Dawn Parkway System was included in the Company's revenue requirement and allocated based on the forecast demands, consistent with a cost of service treatment.*

Question(s):

Over what forecasted utilization was the full cost including the 210 TJ/d of excess Dawn Parkway capacity recovered?

a) What was the revenue requirement of the full Dawn-Parkway system including the excess 210 TJ/d for 2015 prior to any additional recoveries as a result of the 2015 expansion?

b) Please provide the actual revenue generated in 2015 from:
   i. In-franchise rates
   ii. Ex-franchise M12 rates
   iii. PDO revenue from in-franchise customers

Response:

The forecast used in Union's 2013 Cost of Service proceeding[1] included Dawn Parkway System capacity of 6,803 TJ/d and Dawn Parkway System demands of 6,593 GJ/d for total excess capacity of 210 TJ/d. Please see response at Exhibit I.4.7-FRPO-169,

[1] EB-2011-0210.

Attachment 1, column (a) for the annual forecast approved in Union's 2013 Cost of Service proceeding[2].

a) Enbridge Gas does not prepare a cost allocation study to determine the allocation of costs to the Dawn Parkway System on an annual basis. In Union's 2013 Cost Allocation Study, the revenue requirement for the Dawn Parkway System was approximately $165 million.[3]

b) Enbridge Gas cannot provide the 2015 actual revenue associated with Dawn Parkway, as the costs for the Dawn Parkway System are embedded in rates. Please see response at Exhibit I.4.7-STAFF-187 for additional discussion on the 210 TJ/d of excess Dawn Parkway capacity.

   i. For 2015 actual in-franchise total revenue, please see Exhibit 3, Tab 1, Schedule 1, Table 1, column (d), lines 1 and 8.

   ii. For 2015 actual Rate M12 total revenue, please see Exhibit 3, Tab 4, Schedule 1, Attachment 1, page 2, column (d), lines 13 and 14.

   iii. For PDO revenue included in rates, please see response at Exhibit I.4.7-FRPO.169 Attachment 1.

[2] Ibid.
[3] 2013 Dawn Parkway System revenue requirement from the 2013 Cost Allocation Study. Includes the allocated demand costs of the Dawn Station and Dawn Trafalgar Easterly functional classifications.

Dawn Parkway System Capacity and Demand, PDO Shift Details, and PDO Demand Revenue Difference

Line No.	Particulars (TJ/d)	2013 Forecast W2013/2014	W2014/2015	W2015/2016	W2016/2017	W2017/2018	W2018/2019	W2019/2020	W2020/2021	W2021/2022	W2022/2023
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
	Dawn Parkway System										
	Included in Rates										
1	2013 Cost of Service (EB-2011-0210) Capacity	6,803	6,803	6,803	6,803	6,803	6,803	6,803	6,803	6,803	6,803
2	Incremental Dawn Parkway System Capacity (1)	-	-	433	876	1,332	1,332	1,332	1,332	1,332	1,332
3	Total	6,803	6,803	7,236	7,678	8,135	8,135	8,135	8,135	8,135	8,135
	Other Changes (No Impact to Rates)										
4	Other Dawn Parkway System Capacity Changes	-	(2)	(222)	(170)	(246)	(262)	(256)	(219)	(169)	(160)
	Annual Forecast										
5	Total Forecasted Dawn Parkway System Capacity (line 3 + line 4)	6,803	6,801	7,014	7,508	7,889	7,873	7,878	7,915	7,966	7,975
6	Total Forecasted Dawn Parkway System Demands	6,593	6,643	7,049	7,443	7,783	7,759	7,905	7,911	8,038	7,992
7	Forecast Dawn Parkway System Excess/(Shortfall) (line 5 - line 6) (2)	210 (3)	158	(35) (5)	65	106 (6)	114	(27)	4	(72)	(17)
	PDO Shift										
	Customers without M12 service										
8	Temporarily Available Capacity	-	146	23	13	-	-	-	-	-	-
9	Permanent Capacity (from Dawn-Kirkwall Turnback) (5)	-	0	123	133	200	200	200	200	200	200
10	Temporary Capacity (from exchange service)	-	-	-	-	-	-	-	-	-	27
11	Total	-	146 (4)	146	146	200	200	200	200	200	226
	Customers with M12 service - Permanent Capacity										
12	All Customers excluding TCE Halton Hills	-	19	19	19	19	19	19	19	19	19
13	TCE Halton Hills	-	48	48	48	62	132	132	132	132	132
14	Total	-	66	66	66	81	151	151	151	151	151
15	Total PDO Shift (line 11 + line 14)	-	212	212	212	280	350	350	350	350	377
	PDO Shift cost in Rates		2015 Rates	2016 Rates	2017 Rates	2018 Rates	2019 Rates	2020 Rates	2021 Rates	2022 Rates	2023 Rates
16	Dawn-Parkway Demand Costs ($000s)		5,143	5,694	6,720	9,726	10,956	11,117	11,273	11,391	11,630
17	Incremental Compressor Fuel Costs ($000s)		1,900	1,797	1,707	1,705	1,640	1,404	1,517	2,067	4,017
18	Firm Exchange Service ($000s)		-	-	-	-	-	-	-	-	1,067
19	Total		7,043	7,491	8,426	11,431	12,596	12,521	12,790	13,459	16,713
	Foregone Demand Revenue of M12 Dawn-Kirkwall Turnback										
20	Used for PDO Shift ($000s) (7)		580	4,669	5,937	9,993	11,217	11,379	11,535	11,654	11,896
21	Demand Revenue from Temporarily Available Capacity (line 8 x M12 D-P Rate x 12)		4563	796	531	0	0	0	0	0	0
22	Total		5,143	5,465	6,468	9,993	11,217	11,379	11,535	11,654	11,896
23	Demand Revenue Difference ($000s) (line 16 - line 22)		-	229	252	(267)	(261)	(262)	(261)	(263)	(266)

Notes:

(1) W2015/2016 - Incremental capacity resulting from the Brantford-Kirkwall / Parkway D Project of 433 TJ/d.
W2016/2017 - Incremental capacity resulting from the Dawn Parkway 2016 System Expansion Project of 443 TJ/d.
W2017/2018 - Incremental capacity resulting from the 2017 Dawn Parkway Project of 457 TJ/d.

(2) The PDO shift was reflected in Dawn Parkway excess/(shortfall) beginning W2015/2016.

(3) The W2013/2014 forecast filed in Union's 2013 Cost of Service proceeding (EB-2010-0210) included 210 TJ/d of excess Dawn Parkway capacity. In the EB-2011-0210 Decision, the OEB accepted Union's forecast and regulatory treatment. Union's 2013 Cost Allocation Study allocates Dawn Parkway demand costs in proportion to distance weighted design day demands. The 2013 allocation resulted in approximately 84% of costs allocated to Union's ex-franchise rate classes and 16% to Union's in-franchise rate classes.

(4) In accordance with the Settlement Framework for Reduction of Parkway Delivery Obligation ("PDO Framework") (EB-2013-0365) effective April 1, 2014, Union had temporarily available Dawn Parkway capacity which was used to facilitate 146 TJ/d of PDO shift. Parties agreed Union would include the demand and fuel costs associated with the 146 TJ/d of capacity in delivery rates. (PDO Framework, paragraph B1)

(5) Consistent with the PDO Framework, effective November 1, 2015 the temporarily available capacity was forecast to be used for other purposes leaving Parkway in a delivery shortfall position. Parties agreed that the demand and fuel costs associated with the temporarily available capacity would remain in delivery rates for Union to manage the Parkway delivery shortfall through the acquisition of incremental resources. M12 Dawn to Kirkwall turnback was to be used to first reduce the Parkway delivery shortfall and then to further reduce the remaining PDO. All incremental costs associated with the incremental PDO reduction were recovered by Union in rates (or deferral account due to timing differences). (PDO Framework, Paragraph B2)

(6) As part of the 2017 Dawn-Parkway Expansion Project (EB-2015-0200), Union had forecast a surplus of 30,393 GJ/d on the Dawn Parkway System following the completion of the project. As part of the EB-2015-0200 Settlement Agreement, Union agreed to market the surplus capacity in accordance with the Storage and Transportation Access Rule (“STAR”) and credit the revenues to the project deferral account.

(7) Exhibit I.4.7-FRPO-16 Attachment 2, line 7.

Calculation of Foregone Demand Revenue from Turnback Used for PDO Shift

Line No.	Particulars	2015 Rates W2014/2015	2016 Rates W2015/2016	2017 Rates W2016/2017	2018 Rates W2017/2018	2019 Rates W2018/2019	2020 Rates W2019/2020	2021 Rates W2020/2021	2022 Rates W2021/2022	2023 Rates W2022/2023
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
	Turnback Used For PDO Shift (TJ/d)									
1	Dawn-Kirkwall turnback - customers without M12 service (1)	-	139	151	242	242	242	242	242	242
2	Dawn-Parkway turnback - customers with M12 service (2)	19	19	19	19	19	19	19	19	19
	Rate M12 Demand Rates ($/GJ/mo) (3)									
3	Dawn to Kirkwall	2	2	3	3	3	3	3	3	3
4	Dawn to Parkway	3	3	3	4	4	4	4	4	4
	Foregone Demand Revenue from M12 Turnback Used for PDO Shift ($000s)									
5	Dawn-Kirkwall (line 1 x line 3 x 12)	-	4,027	5,179	9,165	8,886	8,959	9,037	9,096	9,270
6	Dawn-Parkway (line 2 x line 4 x 12)	580	643	758	828	803	809	817	822	838
7	Dawn-Parkway Rate T2 BCD Revenue Credit Shortfall	-	0	0	0	1,528	1,611	1,681	1,736	1,788
8	Total Foregone Revenue (line 5 + line 6 + line 7)	580	4,669	5,937	9,993	11,217	11,379	11,535	11,654	11,896

Notes:
(1) Dawn to Kirkwall contract turnback used to create permanent Dawn to Parkway capacity shown at Attachment 1, line 9 to facilitate PDO shift.
(2) Attachment 1, line 12.
(3) Demand rates from the Company's annual rates filings: 2015 Rates (EB-2014-0271), 2016 Rates (EB-2015-0116), 2017 Rates (EB-2016-0245), 2018 Rates (EB-2017-0087), 2019 Rates (EB-2018-0305), 2020 Rates (EB-2019-0194), 2021 Rates (EB-2020-0181), 2022 Rates (EB-2021-0147), and 2023 Rates (EB-2022-0133).

ONTARIO ENERGY BOARD

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

AND IN THE MATTER OF an Application by Enbridge Gas Distribution Inc. and Union Gas Limited, pursuant to section 43(1) of the *Ontario Energy Board Act, 1998*, for an order or orders granting leave to amalgamate as of January 1, 2019.

AND IN THE MATTER OF an Application by Enbridge Gas Distribution Inc. and Union Gas Limited, pursuant to section 36 of the *Ontario Energy Board Act, 1998*, for an order or orders approving a rate setting mechanism and associated parameters during the deferred rebasing period, effective January 1, 2019.

REPLY ARGUMENT OF THE APPLICANTS

A. INTRODUCTION

1. The Applicants, Enbridge Gas Distribution Inc. ("Enbridge") and Union Gas Limited ("Union") filed their argument-in-chief ("AIC") in this combined proceeding on June 1, 2018. Procedural Order No. 9 provides for submissions by intervenors and Board staff to be filed by June 15, 2018 and for reply argument to be filed by June 29, 2018.

2. The Applicants have received the following submissions that were filed pursuant to Procedural Order No. 9:

(i) OEB Staff Submission ("Staff Submission");
(ii) Association of Power Producers of Ontario ("APPrO") submissions ("APPrO Submission");
(iii) Building Owners and Managers Association Toronto ("BOMA") final argument ("BOMA Submission");

199. Finally on this point, the Applicants reiterate their submission that, should the Board consider it necessary or appropriate that a change be made to the Applicants' proposals to allow ratepayers to share in more savings prior to the end of the deferral period, a balanced ESM over the 10 year deferred rebasing period will deliver the best outcomes for customers, as opposed to other mechanisms such as a base rate adjustment or a stretch factor.

200. FRPO submits that "[t]he additional ratepayer contribution of $9.7 million" for the demand costs of the Parkway Delivery Obligation ("PDO") should be removed as a base rate adjustment for Union South customers.[269] LPMA adopts, without discussion, FRPO's submission.[270] There is no merit to FRPO's submission and it should be rejected by the Board.

201. While lengthy and somewhat difficult to follow, FRPO's argument can be distilled to one fundamental assertion: the claim that ratepayers are paying for the cost of eliminating the Parkway Delivery Obligation twice. This can be seen most clearly in the following claim made by FRPO:

> Even with the last tranche of Parkway to Dawn shift Nov. 1/17, there is an equivalent of 200 TJ of Dawn-Parkway which ratepayers are now paying for through PDO Reduction costs in rates. Since that amount is less than the 210 TJ of original surplus, ratepayers are paying twice for the 200 TJ."[271]

202. FRPO's claim is wrong. Indeed, not only are ratepayers not paying twice, but the PDO has been eliminated in precisely the manner contemplated and agreed to by the parties in the PDO Settlement Agreement approved by the Board in EB-2013-0365.

[269] FRPO Submission, page 7, paragraph 5.3
[270] LPMA Submission, page 16.
[271] FRPO Submission, page 7, paragraph 5.6

This Agreement followed shortly after the Board's decision in respect of Union's 2013 rebasing application, EB-2011-0210.

203. In EB-2011-0210, the Board considered and approved:

- the costs of the Dawn-Parkway system;
- the methodology for allocating those costs (distance weighted easterly design demands); and,
- the demands used in the allocation.

204. The final item noted above, the "demands used", was based, in part, on Union's forecast of ex-franchise M12 transportation on the Dawn-Parkway system. Contrary to a statement made in the FRPO Submission,[272] this was a contested issue in the EB-2011-0210 proceeding. The Board came to the following conclusion on this issue:

> The Board accepts Union's forecast of 2013 M12 Long-Term Transportation Revenue, Other Long-Term Transportation Revenue, and Other S&T Revenue as reasonable. The Board will not require Union to adjust estimated revenues as was suggested by some parties, as the Board concurs with Union that the adjustments are selective in nature. The Board rejects LPMA's request to establish a variance account related to Long-term Transportation Revenue, as the Board believes that Union should continue to bear this forecast risk, consistent with the current treatment.[273]
>
> (Emphasis added.)

205. Throughout its submission, FRPO refers to Union having "surplus" or "excess" capacity.[274] This is a red-herring that has nothing to do with the Parkway Delivery Obligation. It is a backdoor attempt by FRPO to re-argue the above issue in relation to the appropriate M12 revenue forecast. As the Board decided, Union should be at risk in

[272] FRPO Submission, page 9, footnote 19.
[273] EB-2011-0210 Decision and Order, page 22.
[274] For example, FRPO Submission, page 13

relation to the forecast: if Union fails to meet the forecast, the company bears the loss; if it exceeds the forecast, subject to earnings sharing, both the company and ratepayers benefit.

206. Ultimately, as a result of the Board's decision, all costs of the Dawn-Parkway system (and the capacity available on the system) were allocated to ratepayers in proportion to distance weighted easterly design day demands. This produced the following allocation: 84% to ex-franchise rate classes, 11% to Union South in-franchise rate classes and 5% to Union North rate classes.

207. On design day, Union requires gas at Parkway to meet the needs of its customers.

208. The PDO Settlement was reached in Union's first rate proceeding following rebasing. The purpose of the Settlement Agreement was set out in the "context and guiding principles." In those paragraphs, the parties, including FRPO and LPMA, agreed that there was an "inequity" in that direct purchase customers with a PDO were conferring a benefit on users of the system (primarily Union South in-franchise customers); that the PDO should be permanently reduced primarily in the manner proposed by Union; and that Union should be kept "whole", with the reduction neither intended to reduce or increase its earnings potential over the IR term.

209. The parties next set out in the Agreement the timing and manner in which the PDO would be reduced and ultimately eliminated (the PDO Reduction Proposal). While divided into three phases, only the period after Phase 1, April 2014 is relevant. Fundamentally, the parties agreed that Dawn to Kirkwall M12 capacity turned back by ex-franchise shippers would be used to reduce the PDO. The parties agreed that:

> All incremental costs associated with the incremental PDO reduction [subsequent to the Phase 1 reduction], including demand charges and fuel, will be recovered by Union either through the deferral account due to timing differences or included in rates per paragraphs B.1(d), B.1(e), B.1(f) and B.3.[275]

210. In simple terms, the parties recognized (i) that as M12 shippers turned back capacity (which capacity could then be used to move gas to Parkway thus reducing the need for a PDO) this would result in decreased revenues to Union - a shortfall relative to what had been approved by the Board in EB-2011-0210 – and agreed (ii) that, to keep Union "whole" relative to that decision, in-franchise rate payers would make up that revenue through a change(s) in their rates.

211. As explained by Union's witnesses during cross-examination in this proceeding, eliminating the PDO came at a cost. For example:

> MR. KITCHEN: The Parkway delivery obligation and the shift to Dawn was something that customers wanted for quite a long time, and it was something that we worked very hard as a group to facilitate.
>
> But the move was not free. <u>When you move the deliveries from Parkway to Dawn you need facilities equivalent to get that gas back to Parkway because that's where it's needed, and so the costs that were built into rates in '15 and throughout the last term of the IRM were costs associated with facilitating that shift.</u>
>
> So in essence, customers were getting an additional service, and they paid for that service.[276]
>
> (Emphasis added.)

212. And, to the same effect:

[275] EB-2013-0365 Decision and Order on Parkway Delivery Obligation, June 16, 2014, Appendix B, page 4, part iii.
[276] 3 Tr. 15-16.

> MS. MIKHAILA: Yes, because we had customers that had M12 capacity, turned it back so that they could deliver at Dawn, and we included that -- the offset of that is included in line 15, the recovery of Dawn to Parkway demand cost.[277]

213. Since entering into the PDO Settlement Agreement, Union has used easterly Dawn-Parkway system capacity to allow direct purchase customers to shift their obligated deliveries from Parkway to Dawn, which has resulted in Union South in-franchise rate classes requiring firm Dawn-Parkway capacity on design day that is incremental to the original allocation of Dawn-Parkway costs from the 2013 Board-approved cost allocation study. In other words, in-franchise ratepayers have been asked to pay costs not previously allocated to them; they are not paying twice. These costs are the current Dawn-Parkway system demand costs of $9.7 million shown in Exhibit J2.5.[278]

214. In each rates proceeding subsequent to the PDO Settlement Agreement, Union has proposed to adjust rates as contemplated by the Agreement and the Board has approved these adjustments. In none of the proceedings has any party objected to the adjustment.

215. The Applicants submit that it would be inappropriate, and contrary to the PDO Settlement Agreement and the various Board decisions which have subsequently implemented the Agreement, to now deny recovery of Dawn-Parkway demand costs during the deferred rebasing term (as argued by FRPO) while at the same time maintaining the PDO shift to Dawn for direct purchase customers. The recovery of the Dawn-Parkway demand costs for the capacity used to facilitate the PDO shift and the benefit to customers of shifting their obligated deliveries to Dawn are elements of the comprehensive PDO Settlement Agreement agreed to by all parties.

[277] 3 Tr. 14.
[278] Exhibit J2.5, Attachment 1, line 15.

216. As a final point on this matter, the fact that Union South in-franchise ratepayers are not paying the same Dawn-Parkway system costs twice is further evident from evidence given by the Applicants in an undertaking response.[279] The analysis in the undertaking response shows that the change in rates since the PDO Settlement Agreement reasonably reflects the result that would have obtained had the PDO shift occurred at the time of rebasing. Union South in-franchise demands would have made up a larger portion of overall demands and those customers would have been allocated a greater portion (greater than the 11% they were allocated) of the Dawn-Parkway system costs.

9. Deferral and Variance Accounts

(i) Continuation of Existing Accounts

217. The Applicants propose to continue the deferral and variance accounts listed in the pre-filed evidence for the Price Cap Application.[280] OEB Staff have no concerns with the continuation of the accounts[281] and, with the exception of the NAC/AU accounts, others support the continuation of accounts as proposed by the Applicants.[282]

218. The Applicants' submissions on NAC/AU are set out above.[283] Given the Applicants' submissions with respect to NAC/AU, and given that there is no opposition to the Applicants' proposal regarding continuation of any other existing deferral and variance accounts, the Applicants submit that approval should be granted to continue accounts as listed in the Price Cap pre-filed evidence.

[279] Exhibit J3.5.
[280] Mechanism Exhibit B-1, Attachment 4.
[281] Staff Submission, page 35.
[282] LPMA Submission, page 35; OGVG Submission, page 25.
[283] See section 6(iv), Y Factors, above.

SETTLEMENT FRAMEWORK
FOR REDUCTION OF PARKWAY DELIVERY OBLIGATION

A. CONTEXT AND GUIDING PRINCIPLES

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

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

3. The ultimate objective of the modified proposal is to remedy an inequity. The guiding principle is to keep Union whole rather than to enhance or reduce its earnings during the operation of the Incentive Regulation Mechanism ("IRM") to December 31, 2018.

4. Union identifies TransCanada Power, a Division of TransCanada Energy Ltd. ("TCE"), as a M12 DP customer having a PDO eligible for reduction by turnback of M12 capacity. (See Exhibit B1.5) TCE holds M12 service for 132,000 GJ/day pursuant to an arrangement made with Union under the auspices of sub-paragraph (b) in the "Delivery Obligations" portion of section 1.3 of the EB-2005-0551 Settlement Agreement dated June 13, 2006 (the "NGEIR Settlement"). Under the provisions of subparagraph (b)(ii) of the NGEIR Settlement, this M12 service arrangement allows TCE's Halton Hills Generating Station ("HHGS") to purchase and deliver all of its DP gas supply to Union at Dawn on a non-obligated basis. Union then transports and delivers those non-obligated volumes from Dawn to HHGS, located near Parkway.

5. These delivery services are provided by Union to TCE for HHGS under the auspices of a M12 Dawn to Parkway contract for 132,000 GJ/day which TCE has assigned to Union and a Rate T2 contract for distribution services at a Billing Contract Demand ("BCD") of approximately 52,000 GJ/day. This is the minimum quantity that causes the Rate T2 demand charges paid by HHGS to fully recover the capital costs of the HHGS lateral under the economic test that is used for leave to construct applications.

6. This PDO Reduction proposal includes within its ambit the 132,000 GJ/day of capacity which TCE holds pursuant to its M12 contract which it has assigned to Union. TCE's M12 contract expires on October 31, 2018.

7. Ratepayer representatives and Union acknowledge that M12 turnback opportunities should be made available to TCE in the same proportions as those opportunities are made available to DP customers with PDOs in excess of 100 GJ/day so that TCE can transition to full Rate T2 service by increasing its BCD above its current level of 52,000 GJ/day. The parties acknowledge that TCE should increase the level of its BCD to the extent necessary to produce an amount of incremental T2 demand revenue which equates to the loss of M12 demand revenue related to TCE's M12 turn back provided that TCE's obligation to increase its Rate T2 BCD ends when it reaches 132,000 GJ/day.

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

9. The PDO Reduction Proposal which follows is based on the foregoing concepts and principles.

B. TERMS OF PDO REDUCTION PROPOSAL (EXCLUDING TCE)

(i) <u>Phase 1 (April 1, 2014)</u>

1. Effective April 1, 2014, the PDO will be permanently reduced by 146 TJ/day using temporarily available M12 Dawn to Parkway capacity. Upon Board approval of the PDO Reduction proposal, Union will facilitate a 36.1% reduction of the M12 capacity held by the DP customers identified by Union in Exhibit B1.5, excluding TCE, who elect to change their obligated delivery point from Parkway to Dawn effective April 1, 2014. A proportionate share of the aggregate PDO reduction available will be allocated to all Parkway delivery obligated direct purchase ("PDO DP") customers as follows:

    (a) PDO DP customers with PDOs of 100 GJ/day or less, who elect to change their obligated delivery point from Parkway to Dawn, will have their entire PDO transferred to Dawn;

    (b) PDO DP customers with PDOs above 100 GJ/day, excluding TCE, who elect to change their obligated delivery point from Parkway to Dawn, will have 36.1% of their PDO transferred to Dawn;

    (c) PDO DP customers, excluding TCE, holding M12 Dawn to Parkway capacity to satisfy their PDO may elect to turn back up to 36.1% of that capacity. The total potential M12 turn back by such PDO customers is about 18 TJ/day;

    (d) The annual demand costs of the currently unutilized capacity between Dawn and Parkway to be used to provide 146 TJ/day of PDO relief and the additional 18 TJ/day of capacity to be realized by the turn back of M12 capacity held by PDO DP customers, excluding TCE, will be determined by applying the 2014 proposed M12 rate for Dawn to Parkway transportation at 100% load factor excluding fuel, being a unit rate of $0.080/GJ, for total annual demand costs of about $4.763

million, of which $4.240 million is for the 146 TJ/day and $0.523 million is for the 18 TJ/day, for a total of $4.763 million;

(e) Consistent with Union's evidence, the annual demand costs of $4.763 million will be recovered through a deferral account (see Attachment 1 for the accounting order) for the period April 1, 2014 – December 31, 2014 and thereafter in the delivery rates of in-franchise customers served under the auspices of Rates M1, M2, M4, M5 Firm, M7 Firm, M9, M10, T1, T2 Firm and T3, and will be allocated to those rate classes using the 2013 Board approved Dawn-Parkway Design Day Demands reflected in the In-franchise Peak Day Demand allocation factor updated for the EB-2011-0210 Decision, all as shown in Schedule 1;

(f) Union will include in rates the incremental fuel, per Schedule 2, to transmit, to points east of Dawn, for new obligated deliveries at Dawn described in paragraphs B.1(a), (b) and (c) above and Section C below which fuel volumes are incremental to the fuel volumes already embedded in the rates of Union's in-franchise customers. Union will manage any volume variances associated with actual fuel used to transport in-franchise gas east of Dawn;

(g) Incremental delivery volumes, will continue to be allocated a PDO per Union's existing DCQ policies, if Union, acting reasonably and in a non-discriminatory manner, determines a PDO to be necessary, and will be eligible for the PDCI described in paragraph B.4.

(ii) <u>Phase 2 (April 1, 2014 through October 31, 2018)</u>

2. Between April 1, 2014 and October 31, 2018, there will be a temporary shortfall in the Dawn to Parkway capacity needed to support the PDO reduction proposed by Union in its pre-filed evidence. Based on Union's forecast, the portion of Dawn to Parkway capacity needed to support PDO reduction which will be temporarily unavailable will be as follows:

- Between April 1, 2014 and October 31, 2015 – no Parkway delivery shortfall;
- Between November 1, 2015 and October 31, 2016 – Parkway delivery shortfall of 146 TJ/day;
- Between November 1, 2016 and October 31, 2017 – Parkway delivery shortfall of 118 TJ/day; and
- Between November 1, 2017 and October 31, 2018 – no Parkway delivery shortfall.

The actual Dawn to Parkway capacity which will be temporarily unavailable will vary.

Union intends to manage its Parkway delivery requirement as proposed in its pre-filed evidence and interrogatory responses as follows:

i. 146 TJ/day of temporarily available M12 Dawn to Parkway capacity will be used to reduce the PDO from April 1, 2014 to October 31, 2015.

ii. Effective November 1, 2015, the temporarily available Dawn to Parkway capacity will be used for other purposes leaving Parkway in a delivery shortfall position. The demand costs associated with the temporarily unavailable capacity as described above will nevertheless remain in delivery rates to be used by Union to manage the Parkway delivery shortfall through the acquisition of incremental resources, the costs of which are not already covered by base rates, Y factors and/or deferral and variance accounts and subject to the reporting and risk allocation measures described in paragraph B.10 (c) below.

iii. Any Dawn to Kirkwall M12 capacity turned back to Union by ex-franchise shippers will be used to first, reduce the Parkway shortfall and secondly, to further reduce the PDO. All incremental costs associated with the incremental PDO reduction, including demand charges and fuel, will be recovered by Union either through the deferral account due to timing differences or included in rates per paragraphsB.1 (d), B.1 (e), B.1(f) and B.3.

iv. The 98 TJ/day currently being delivered to Parkway by Union on behalf of sales service gas customers will transition to Dawn by November 1, 2016, as described at Exhibit B1.9.

3. The demand costs associated with the Dawn to Parkway capacity, the Parkway shortfall and M12 turn back used to support the PDO reduction will be calculated using the Board-approved M12 Dawn to Parkway toll at 100% load factor excluding fuel.

4. From and after November 1, 2016, all PDO volumes (DP and sales service gas) will attract a PDCI. The PDCI will be set at the Board approved M12 Dawn to Parkway toll at 100% load factor including fuel based on the fuel cost included in Union's October 1 QRAM each year.

5. The PDCI will be paid on the Parkway deliveries Union requires from DP customers, for which they commit to deliver their DCQ volumes at Parkway, and requires from its sales service customers. For greater clarity, volumes voluntarily delivered to Parkway, rather than delivered pursuant to a PDO required by Union, will not attract the PDCI.

6. The payment of the PDCI to sales service customers will be made by way of a credit to the Union South gas supply transportation rate. The payment of the PDCI to DP customers will be by way of a credit on the bill to the Bundled Transportation contract holder.

7. The costs of the PDCI will be allocated to rate classes and recovered in rates in the same manner as the PDO reduction costs are allocated to rate classes and recovered in rates as described in paragraphs B.1(e) and B.1(g) above. Schedule 1 includes illustrations of the manner in which the PDCI will be allocated and recovered from in-franchise rate classes, the manner in which the credit for sales service customers will be

applied and the manner in which the PDCI will be credited on the bills to Bundled transportation contract holders for ratepayers who acquire their gas under the auspices of DP arrangements.

(iii) Phase 3 (November 1, 2016 and beyond)

8. Effective November 1, 2016, or such earlier date upon which, as described in Exhibit B1.9, Union transitions to Dawn delivery volumes currently being delivered to Parkway by Union on behalf of sales service customers, any remaining PDO for all DP customers and sales service customers will be eliminated provided that it can be eliminated in a manner which is more cost-effective for all of Union's ratepayers than the terms and conditions described in paragraphs B.4 through B.7.

9. Should DP customers renew their M12 Dawn to Parkway contract and Union subsequently offers a reduction to the direct purchase PDO, then notwithstanding these renewals, such customers will be allowed to reduce their M12 contracts by an amount equivalent to that PDO reduction.

(iv) Annual Reporting

10. Union will include in its annual rate case filings a report on:

(a) Capacity that could become available, or could be made available, in the 2 years commencing with the test year, and could be used to further reduce the PDO in place at the time of the rate case filing on a more cost effective (i.e. lower revenue requirement) basis than the cost of the PDCI. Parties in the rate review process may explore any such options and advocate for further physical displacement of remaining PDOs to Dawn or other delivery points less costly to deliver to than Parkway.

(b) Forecast PDO volumes for the two years commencing with the test year. This information will facilitate consideration, at the time of rebasing, of the status of the PDO and associated PDCI provided for in this agreement.

(c) The measures that Union used and the costs incurred to manage the Parkway delivery shortfall (described in paragraph B.2) to acquire incremental resources, the costs of which are not already recovered in base rates, Y factors and/or existing deferral and variance accounts.

If the costs incurred to manage the Parkway delivery shortfall component of the PDO reduction in any year are less than the annual demand costs related to the shortfall in that year and actual fuel costs in that year for capacity equal to the shortfall capacity, then the entire amount of such cost savings will accrue to Union. Conversely, if the actual costs in any year to manage the Parkway Delivery shortfall in that year exceed annual demand costs and actual fuel costs in that year for capacity equal to the shortfall amount, then Union will be entirely responsible for those excess costs.[1] Parties further agree that ratepayers will be entitled to recover from Union that portion of the costs incurred by Union to manage the Parkway Delivery shortfall to the extent that the cost of the measures used by Union to manage the shortfall are already covered in base rates, Y factors and/or existing deferral or variance accounts.

(d) The total actual transmission compressor fuel used on the Dawn to Parkway system in the prior year.

C. TCE PDO Reduction Proposal

1. Immediately following the Board's approval of the PDO Reduction settlement, Halton Hills Generating Station ("HHGS"), through TCE, will be entitled to elect to turn back up to 36.1% of its 132,000 GJ/day of M12 capacity effective April 1, 2014, being a turn back amount of up to 47,652 GJ/day, provided that there is a one-time increase in the HHGS Rate T2 Billing Contract Demand ("BCD") to the extent necessary to make the increase in Rate T2 demand payments, taking into account the demand rate adjustments resulting from B.1(e), equal to the reduction in M12 demand payments associated with the turn back volumes, and HHGS will continue to have non-obligated delivery at Dawn for its full Contract Demand.

   Example

   If HHGS elects the full M12 reduction of 47,652 GJ/day, the M12 demand costs would be reduced by $115,318 per month at current rates [47,652 x $2.420 = $115,318]. To keep the total demand payments the same, HHGS would need to increase its BCD by 1,071,600 m^3/day (approximately 40,250 GJ/day) [1,071,600 x $0.107608 = $115,318] from 1,374,000 m^3/day (approximately 52,000 GJ/day) to 2,445,600 m^3/day (approximately 92,550 GJ/day).

2. The increase in Rate T2 demand payments will accrue entirely to the benefit of ratepayers exposed to the PDO Reduction costs associated with the HHGS M12 turn back so that their exposure to such costs will be eliminated.

   Example

   The incremental T2 revenue of $115,318/month described above would accrue entirely to the benefit of ratepayers exposed to PDO Reduction costs associated with the M12 turn back and effectively eliminate ratepayer responsibility for PDO Reduction costs associated with TCE's M12 turn back of 47,652 GJ/day.

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1 Based on Union's forecasts, of the total of $4.763 million per annum of demand costs plus actual fuel costs to be paid by ratepayers to Union for PDO Reduction, the amount of $4.240 million plus actual fuel costs related to the shortfall amount of 146 TJ/day will be available for use by Union to manage Parkway shortfall between October 1, 2015 and October 31, 2016. Between November 1, 2016 and October 31, 2017,the portion of the total of $4.763 million of demand costs plus actual fuel costs which will be available for use to manage Parkway shortfall will be $3.446M of demand costs plus actual fuel costs related to the shortfall amount of 118 TJ/day.

3. HHGS will have the right to turn back additional M12 capacity as and when that turn back option is made available to DP customers with a PDO obligation greater than 100 GJ/day, as described in B.8 above, provided that HHGS, through TCE, further increases its BCD in the manner described in C.1 above, up to but not exceeding its Rate T2 Contract Demand ("CD") of 132,000 GJ/day.

4. T2 demand revenues associated with increases in BCD from 92,250 GJ/day to 132,000 GJ/day will be applied as described in C.2 above.

5. The application of the demand revenues in the manner described in C.2 and C.4 above will prevail until the end of Union's Incentive Regulation Mechanism ("IRM") term on December 31, 2018 or when the BCD of HHGS, through TCE, has reached 132,000 GJ/day and TCE has turned back all of its M12 capacity, whichever last occurs.

6. On or after November 1, 2018, HHGS will have the option to turn back all or any portion of its remaining M12 capacity and convert an equal amount of the PDO to non-obligated deliveries at Dawn, subject to the BCD modification described in C.1 and C.3 above, <u>or</u> HHGS may convert to standard Rate T2 service, with non-obligated deliveries at Dawn for 100% of the Rate T2 Contract Demand. Under the full conversion option, HHGS will turn back, or allow the term to expire, any remaining Rate M12 capacity and pay Rate T2 demand charges on 100% of the Rate T2 Contract Demand.

7. This proposal is in no way intended to degrade or lessen the quality of the firm services HHGS contracted with Union under the terms and conditions of the existing tariff structure.

8. Once the HHGS Rate T2 BCD equals the Contract Demand of 3,480,000 m^3/d (about 132,000 GJ/day), HHGS will have the option to shorten the T2 contract term to end one year from the date of full Contract Demand conversion as per 3 or 6 above, with one year renewal, provided, however that HHGS will contract for at least 1,374,000 m^3/d (about 52,000 GJ/day) of firm Rate T2 service through July 31, 2029.

9. HHGS, through TCE, will not become entitled to the PDCI with respect to any of its M12 capacity which it refrains from turning back.