November 15, 2013

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

NORTON ROSE FULBRIGHT

Barristers & Solicitors / Patent & Trade-mark Agents

Norton Rose Fulbright Canada LLP
Royal Bank Plaza, South Tower, Suite 3800
200 Bay Street, P.O. Box 84
Toronto, Ontario M5J 2Z4 CANADA

F: +1 416.216.3930
nortonrosefulbright.com

John Beauchamp
+1 416.216.1927
John.Beauchamp@nortonrosefulbright.com

Assistant
+1 416.216.2322
Devka.Sakhrani@nortonrosefulbright.com

Your reference	Our reference
EB-2012-0451 EB-2012-0433 EB-2013-0074	

Dear Ms. Walli:

Enbridge GTA Project (EB-2012-0451)
Union Parkway West Project (EB-2012-0433)
Union Brantford-Kirkwall Parkway D (EB-2013-0074)

Please find attached the submissions of APPrO with respect to the above-noted proceedings.

Please do not hesitate to contact me should you have any questions or concerns.

Yours very truly,

Original signed by

John Beauchamp
Associate

JB/ds

Enclosure

Cop(y/ies) to: All interested parties

DOCSTOR: 2866075\1

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IN THE MATTER OF an application by Enbridge Gas Distribution Inc. for an order or orders granting leave to construct a natural gas pipeline and ancillary facilities, in the Town of Milton, the City of Markham, Town of Richmond Hill, City of Brampton, City of Toronto, City of Vaughan and the Region of Halton, Region of Peel and Region of York; and an order or orders approving the methodology to establish a rate for transportation services for TransCanada Pipelines Limited;

AND IN THE MATTER OF an application by Union Gas limited for: an Order or Orders for pre-approval of recovery of the cost consequences of all facilities associated with the development of the proposed Parkway West site; an Order or Orders granting leave to construct natural gas pipelines and facilities in the Town of Milton; an Order or Orders for pre-approval of recovery of the cost consequences of all facilities associated with the development of the proposed Brantford-Kirkwall/Parkway D Compressor Station Project; an Order or Orders for pre-approval of the cost consequences of two long term short haul transportation contracts; and an Order or Orders granting leave to construct natural gas pipelines and ancillary facilities in the City of Cambridge and City of Hamilton.

ARGUMENT OF

THE ASSOCIATION OF POWER PRODUCERS OF ONTARIO

(APPrO)

November 15, 2013

INTRODUCTION

1. Enbridge Gas Distribution Inc. ("Enbridge") and Union Gas Limited ("Union") filed three related applications with the Ontario Energy Board (the "Board"), pursuant to sections 36, 90 and 91 of the OEB Act (collectively, the "Applications") requesting leave to construct system expansion projects of their respective pipelines and pre-approval of certain related costs. The background on each application is summarized in the Applicants' evidence and Board Staff's submission, filed with the Board on Wednesday, November 13, 2013. The Applicants have confirmed[1,2] that these are the largest projects each has sought to undertake which, if approved, will cost an estimated $1.1 billion. The Board set out relevant issues to be considered and APPrO's final argument on the issues of primary relevance to its members follows.

2. During the course of the hearing, the Applicants, along with Gaz Metro ("GMi") and TransCanada Pipelines filed a Settlement Agreement[3] affecting certain matters before the Board. To the extent that material changes arise from the implementation of the Settlement Agreement, APPrO hereby requests that the Board mandate as a condition of the approval of the current Applications, the filing of updated information and the right for parties to be heard should the impacts result in a material change of a significant magnitude to warrant the Board's consideration, following the Settlement Agreement's approval by the NEB.

3. APPrO's submissions, set out below, have been organized by application and further by relevant issue from the Board's Issues List within each application. The order of APPrO's submission is as follows:

[1] Transcript Oral Hearing September 16, 2013, Page 138, Lines 24-27
[2] Transcript Oral Hearing September 26, 2013 (Revised), Page 58, Lines 11-17
[3] Settlement Agreement among TransCanada Pipelines Limited, Enbridge Gas Distribution Limited, Union Gas Limited and Gaz Metro Limited Partnership ("Settlement Agreement"), filed with Board on October 31, 2013.

1) Union Parkway West Project (EB-2012-0433)

2) Union Brantford-Kirkwall/Parkway D Project (EB-2013-0074)

3) Enbridge GTA Project (EB-2012-0451)

EB-2012-0433 Parkway West

A) RELATED ISSUES – PARKWAY WEST

Issue A1 *Are the proposed facilities needed? Considerations may include but are not limited to demand, reliability, security of supply, flexibility, constraints, operational risk, cost savings and diversity as well as the Board's statutory objectives.*

4. The addition of the Parkway West station (i.e. Parkway C) is intended to improve the reliability of the Dawn-Parkway system in the event of a compressor failure at either of the existing compressor facilities at Parkway as well as the proposed Compressor D project. As supplies are shifting from the WCSB to take advantage of the new shale supplies at Dawn and Niagara, the Parkway Compressor complex is becoming a more critical infrastructure facility in serving those markets that are highly dependent reliable supplies.
5. The current cost of the Parkway West Project is $219 million. While the Parkway West project is intended to improve reliability, it has no incremental revenue directly associated with it, therefore the entire annual owning and operating costs of these facilities are borne by Union's existing and future transmission shippers, including those infranchise Union South customers that are allocated a share of the costs of the Dawn-Parkway system.
6. Union has indicated that both Enbridge and GMi are supportive of the Parkway West project. Enbridge has made it clear that reliability is of critical importance as an interruption to the supply into its system can result in the potential loss of thousands of small volume

customers and require very significant resources to relight these customers[4]. With GMi shifting its supply to Dawn and with Union shifting its supply for Eastern Ontario to Dawn, these utilities presumably have similar concerns about reliability and the consequences of having to relight thousands of customers in the event of an interruption. Clearly the cost consequences and the potential for freezing up of homes during severe weather due to a failure at Parkway can be significant. Parkway West can improve the reliability of supply to and avoid these consequences.

7. While APPrO does not oppose the development of Parkway West compressor station, APPrO does question whether all M12 shippers and all Union South infranchise should be paying for the costs of this added reliability. APPrO respectfully submits that those customers requesting and directly benefiting from these facilities should be paying for this added reliability.

8. Given its location, reliance on storage and now gas supplies originating from Dawn and Niagara, Enbridge small volume customers are a primary beneficiary of the increased reliability being proposed by Union. Enbridge has been clear in this proceeding that in the event of force majeure, such as major supply failure or line break, residential customers would be the last customers to be curtailed and large volume customers like power generators, would be the first firm customers to be curtailed. [5] Increased reliability from the addition of Parkway West reduces the likelihood of curtailment, but the driver is to reduce the chance of interruption to small volume customers to avoid mass outages and the significant costs of re-lighting thousands of customers. Adding reliability through Parkway West does not change Enbridge's policy for large volume customers to be curtailed first. Therefore, large volume customers are always at risk of curtailment.

[4] EB-2012-0451 Exhibit A Tab 3 Schedule 3 page 7-10
[5] Transcript Volume 6 page 116-117

Issue A2 *Do the proposed facilities meet the Board's economic tests as outlined in the Filing Guidelines on the Economic Tests for Transmission Pipeline Applications, dated February 21, 2013 and E.B.O. 188 as applicable?*

Issue A3 *Are the costs of the facilities and rate impacts to customers appropriate?*

9. See comments above under issue A1.

Issue A4 *What are the alternatives to the proposed facilities? Are any alternatives to the proposed facilities preferable to the proposed facilities?*

10. APPrO agrees with Union that there are no other suitable alternatives at this time to provide redundancy protection.

Issue A5 *Is the proposed timing of the various components of the projects appropriate?*

11. Significant expansion facilities[6] are being proposed by Union, Enbridge and TransCanada. The volumes being compressed at Parkway will be substantially more after all these projects are completed than what currently flows though the existing Parkway compressor

[6] Parkway Growth projects (Brantford to Kirkwall and Parkway D Compressor), GTA Reinforcement, Kings North Pipeline and potentially further TransCanada expansion projects downstream of the Kings North project.

A and B. In the event that the Board does not approve the Parkway growth project and the GTA reinforcement, Union, Enbridge and GMi would likely continue to rely, as they do today, on the acquisition of a substantial portion of their gas supplies from the WCSB. The impact, in percentage terms to Enbridge and GMi, of a Parkway compressor failure and the resulting loss would be far less than what it would be under the full facilities expansion scenario that the Companies are requesting. Consequently, if these expansion facilities are not approved, there would be no change to their current risk profile.

12. In the event that the Board does not approve the Parkway Growth projects and the GTA Reinforcement, APPrO respectfully requests that the Board delay any approval of the Parkway West project until such time as the Parkway facilities accommodate a greater share of the Ontario volumes.

Issue B1 *Do the facilities address the OEB Environmental Guidelines for Hydrocarbon Pipelines as applicable?*

Issue B2 *Are there any outstanding landowner matters for the proposed facilities' routing and construction? For greater clarity, landowners include parties from whom permits, crossing agreements and other approvals are required.*

Issue B3 *Are the proposed facilities designed in accordance with current technical and safety requirements?*

Issue B4 *Has there been adequate consultation with any affected First Nations or Metis communities?*

Issue B5 *Should pre-approval to recover the cost consequences of the* *proposed facilities be granted?*

13. The Parkway West Project is intended to provide reliability protection and is not dependent on any downstream facilities other than the interconnection with Enbridge for the additional gate station interconnection into Enbridge's system. There is no new market that is driving any specific deadlines for this project. Contractual deadlines often require the developer to ensure the project is on schedule which can lead to budget overruns. Union should be urged to not exceed the budgeted amounts to meet artificial deadlines

14. Union has indicated that:

> *"To the extent that there is a capital cost variance associated with one or both of the projects, there will be balances, either positive or negative, in those deferral accounts, and we would bring them forward in our annual application to dispose of the deferral account balances. The Board would have an opportunity to view the prudence of those costs at the time".*[7]

15. The installed costs of last three compressor projects undertaken by Union have been on average 25% over budget. The following table illustrates the budgeted costs and the actual installed costs of these projects[8].

Project	Budget Costs (million)	Actual Costs (Million)
Parkway B Compressor	$ 48.4	$ 70.8
Bright Compressor	$ 57.4	$ 73.3
Dawn J Compressor	$ 41.7	$ 40.5
Total	$ 147.5	$ 184.6
	Average Increase	25%

16. The applied for capital cost of the Parkway West Project was $ 203 million.[9] Union has already indicated that this Project is now estimated at $219 million.[10] This is already a 7.8%

[7] Transcript Volume 3 Page 120
[8] EB-2012-0451/EB-2012-04311/EB-2013-0074 Exhibit I.AA3.UGL.Staff.13 f)

increase. If the Board approves the construction of the Parkway West Project, APPrO supports the pre-approval of the cost consequences of development, <u>but only up to the current estimated costs of $219 million and only to the extent that the projects actually come into service and are used and useful</u>.

17. APPrO also respectfully requests that the Board expressly stipulate this limitation in any resulting order and rule that any variances would be subject to the Board's further review and not subject to pre-approval.

Issue B6. *If the Board approves the proposed facilities, what conditions, if any, are appropriate?*

18. APPrO understands that some facilities built as part of the Parkway West Project will facilitate an interconnection with the proposed Parkway D compressor. Further the Parkway West Project includes a new gate station facility to deliver gas to Enbridge. In the event that the Board does not approve either the Parkway D facilities or the Enbridge GTA facilities required to receive gas at the new gate station, then Union may need to modify the Parkway West design to reflect such outcomes. APPrO requests that the Board require any pre-approved capital costs to be adjusted to reflect these potential outcomes.

<u>EB-2013-0074 Parkway Growth Projects (Brantford-Kirkwall and Parkway D)</u>

A) RELATED ISSUES – Parkway Growth Projects

Issue A1 *Are the proposed facilities needed? Considerations may include*

[9] EB-2012-0433 page 1 paragraph 3
[10] Transcript Volume 3 Page 14

but are not limited to demand, reliability, security of supply, flexibility, constraints, operational risk, cost savings and diversity as well as the Board's statutory objectives.

19. APPrO understands that Union has entered into a precedent agreements, or allocated capacity for Union East, for the following incremental demands for M12 capacity totaling 737,041 GJ/d which includes:[11]

	(GJ/d)
Vermont	8,100
Enbridge	400,000
Gaz Metro	257,784
Union East	71,157
Total	737,041

20. Union has further conducted a reverse open season to allow existing parties to turn unwanted capacity back to reduce the risk of surplus capacity at this time. APPrO notes that the North American infrastructure is changing due to shale gas dynamics and this includes the flows on the Union system. Union has indicated that 499,955 TJ/d of Dawn-Kirkwall capacity is at risk of turnback between 2015 and 2018.[12] Union has forecasted that all of this 499,955 GJ/d will be turned back as a result of these changing flow dynamics. Union also has indicated that 698,710 GJ/d of Dawn-Parkway capacity is up for renewal between 2015 and 2020.[13] Of this amount, 676,606 GJ/d comes up for renewal between 2015 and 2018.[14] Of this latter amount, Union forecasts that 188,737 GJ/d has been forecasted to be turned back and this has been incorporated into Union's overall analysis.[15] Union further indicates

[11] EB-2013-0074, Application, Section 7, Figure 7-4
[12] Ex I.A1.UGL.Staff.10c)
[13] Ibid.
[14] Ibid.
[15] Ibid.

that growth opportunities on the Dawn-Parkway system are expected to exceed turnback risk.[16]

21. Union is confident that the market demand will be required in the long term, and that the growth opportunities and other uses for Dawn-Parkway capacity outweigh the turnback risk. APPrO does not have, nor should they have, first-hand knowledge of all of Union's M12 markets and their relative level of economic or physical captivity of buying gas at Dawn and transporting gas under M12 arrangements to their market areas vis-a-vis alternative supply options. It is Union's responsibility to assess each market that it serves and determine the likelihood of long term transportation customers continuing as such.

22. Union indicates that the incremental facilities proposed are required based on these assumptions. APPrO accepts that, under these assumptions, the proposed facilities are the most economic design to accommodate the incremental volumes.

23. Union also proposes that, commencing in 2016, it will use surplus Dawn-Parkway/Dawn-Kirkwall capacity to eliminate the Parkway Obligation over time.[17] The Parkway Obligation is an obligation of certain direct purchase customers to deliver their Union South infranchise deliveries to Parkway. This delivery obligation is proposed be moved to Dawn and the surplus capacity that will become available would be used to replace volumes currently being delivered to Parkway under the Parkway obligated deliveries.[18] This proposal, if approved by the Board, will reduce the future risk of underutilized transmission capacity.

24. While APPrO is supportive of Union's addition of new facilities to serve the incremental contract load, this support is contingent on the market conditions and other related information advanced by Union for its existing and new markets to come to this position.

[16] EB-2013-0074 Ex I.A4.UGL.APPrO.11c)
[17] Transcript Volume 3 page 8
[18] EB-2013-0365 Exhibit A Tab 4

Given the dynamic market, APPrO requests that the Board require Union to monitor and report regularly to stakeholders (at Union's Annual Stakeholder Meeting) on all relevant markets using M12 capacity with access to alternative competitive supplies, in order to ensure that the Dawn-Parkway facilities continue to be fully contracted to reduce the risk and customer cost consequences of unutilized capacity.

Issue A2 *Do the proposed facilities meet the Board's economic tests as outlined in the Filing Guidelines on the Economic Tests for Transmission Pipeline Applications, dated February 21, 2013 and E.B.O. 188 as applicable?*

Issue A3 *Are the costs of the facilities and rate impacts to customers appropriate?*

Issue A4 *What are the alternatives to the proposed facilities? Are any alternatives to the proposed facilities preferable to the proposed facilities?*

25. APPrO agrees with Union that there are no other reasonable alternatives at this time to provide this growth capacity, other than for these markets to continue to purchase their supplies from the WCSB and ship long haul on the TransCanada Mainline. This is strictly an economic decision, based solely on information provided by Union.

26. Union, Enbridge and GMi are the beneficiaries of the Dawn-Parkway capacity that is being added at this time. These parties have been clear that this capacity is displacing market demands that are currently being met by long haul transportation on the TransCanada Mainline. The LDCs acknowledge that the driver for the shift to short haul is driven by the relative economics of delivered supplies of long haul vs. short haul rather than the need to meet new load requirements. Some of these Northeast markets use Union's Dawn-Parkway

system to transport gas to their market.[19] These same economics could at least directionally apply to Northeast US markets and their attempt to more directly connect their market to local supplies. APPrO therefore relies directly on Union's market analysis and its relationship with its shippers to conclude that those customers, particularly those in the Northeast US with access to alternative delivered supplies, will continue to renew their Union transportation capacity such that the non-renewal risk does not materialize.

27. Union indicates:

> *Union also assesses the risk of turn back through discussions with its shippers and monitoring the gas supply and transportation market, including the impact of new projects and supply basins and transportation capacity available from supply points to the market. Union's current assessment is that the risk of turn back for Dawn-Kirkwall capacity is significant. Union models its system capacity assuming that Dawn-Kirkwall capacity will be turned back as referenced in response to Exhibit I.A1.UGL.Staff.10.*
>
> *Union also believes that the risk of turn back of Dawn-Parkway capacity is relatively low.*[20]

28. Union's level of assessment and understanding of its transportation market is of critical importance to ensure that the Dawn-Parkway facilities are not oversized. Completing this assessment (which is Union's responsibility) incorrectly may result in the Dawn-Parkway facilities being over-built (resulting in empty pipe capacity and great uncertainty as to who should pay for such unused capacity). It is thus vital, APPrO submits, that Union monitor and update stakeholders on these issues.

29. Because APPrO's position is reliant upon Union's assessment of the existing, and potential future growth for its Dawn-Parkway market, APPrO respectfully requests that the Board reflect that APPrO's positions in support of the facilities are contingent on the evidence in this proceeding, and should such market assessment prove to be materially inaccurate, it would have affected its final position on the related portions of the Application.

[19] EB-2013-0074 Exhibit I.A4.UGL.APPrO.11 Attachment
[20] EB-2013-0074 Exhibit I.A4.UGL.APPrO.11b)

Issue A5 *Is the proposed timing of the various components of the projects appropriate?*

Issue C1 *Do the facilities address the OEB Environmental Guidelines for Hydrocarbon Pipelines as applicable?*

Issue C2 *Are there any outstanding landowner matters for the proposed facilities' routing and construction? For greater clarity, landowners include parties from whom permits, crossing agreements and other approvals are required.*

Issue C3 *Are the proposed facilities designed in accordance with current technical and safety requirements?*

Issue C4 *Has there been adequate consultation with any affected First Nations and Metis communities?*

Issue C5 *Should the request for pre-approval to recover the cost consequences of the proposed facilities be granted?*

30. The Parkway Growth Projects are fully dependent on downstream projects. Union has indicated that the Parkway D compressor is dependent on the development of Segment A and this capacity will be used by Enbridge.[21]

31. The Brantford to Kirkwall pipeline loop is required to meet the capacity requirements of GMi and Union North loads.[22]

32. APPrO is not opposed to Union recovering the cost consequences of the facilities up to $204 million,[23] the amount that is included in the application, once the assets have been put

[21] Transcript Volume 2 page 109
[22] Ibid.

into service, the assets are used and useful, and all of the transportation contracts are in effect.

33. APPrO respectfully requests, however, that in the event the facilities are not put into service, or the contracts do not come into effect, that the Board should require that portion of the costs associated with third party M12 contracts (Enbridge 400,000 GJ/d, and GMi 257,784 GJ/d) to be excluded from the costs pre-approved for recovery from all M12 customers. Union has indicated that the precedent agreements provide that new M12 customers for whom the capacity is being built are responsible for financially backstopping the expenditures by Union.[24]

34. Similarly for that portion of the capacity (70,157 GJ/d[25]) being added for Union's system supply customers in Eastern Ontario, APPrO respectfully requests that, in accordance with the cost causation principles of ratemaking, the Board require that these customers bear the financial responsibility in the event that the facilities are not put into service or do not become used and useful.

35. In the event that the facilities are put into service, Union has indicated that:

> *"To the extent that there is a capital cost variance associated with one or both of the projects, there will be balances, either positive or negative, in those deferral accounts, and we would bring them forward in our annual application to dispose of the deferral account balances. The Board would have an opportunity to view the prudence of those costs at the time".*[26]

36. Since Union has sought a deferral account where any variances from the current cost estimate would be subject to the Board's review, APPrO understands that Union's request is only for pre-approval of the applied for cost estimate, and that variances would be captured in a variance account that would be subject to the Board's review. APPrO therefore

[23] EB-2013-0074 Schedule B paragraph 7
[24] Transcript Volume 3 Page 79
[25] EB-2013-0074 Section 7 page 6
[26] Transcript Volume 3 Page 120

requests that the Board should require any variances to be subject to the Board's further review and not subject to this pre-approval.

Issue C6 Should pre-approval of the cost consequences of two long term transportation contracts be granted?

Issue C7 If the Board approves the proposed facilities, what conditions, if any, are appropriate?

37. The Brantford to Kirkwall facilities are dependent on downstream infrastructure being built and approval of the Settlement Agreement between TransCanada and the LDCs. APPrO believes that the conditions of approval for these facilities should be dependent on the following:

    a) Approval by the NEB of the cost consequences and other relevant terms of the Settlement Agreement (between the LDCs) or any replacement agreement that the parties enter into pursuant to Article 7 of the Settlement Agreement;
    b) The Settlement Agreement, or any replacement agreement that the parties enter into pursuant to Article 7 of the Settlement Agreement, coming into full force and effect;
    c) Approval and development of TransCanada's Kings North pipeline by the NEB;
    d) Approval and development of Enbridge's Segment A pipeline;
    e) GMi had received approval by the Régie to transfer all of its remaining long haul system supply to Dawn.[27] The Settlement Agreement now requires GMi to maintain 85 TJ/d of its system supply under long haul arrangements.[28] GMi should therefore continue to be fully responsible for all of the 257,784 GJ/d of its requested capacity and the related financial consequences independent of the outcome of subsequent decisions of the Régie that may be required to seek approval to shift 85 TJ back to Empress; and
    f) Other conditions as are customary for these types of facilities.

38. The Parkway D compressor facilities are also dependent on downstream infrastructure being built and approval of the Settlement Agreement between TransCanada and the LDCs.

[27] Transcript Volume 8 page 52
[28] Settlement Agreement clause 8.1 b) ii)

APPrO believes that the conditions of approval for these facilities should also be dependent on the following:

a) Approval and development of Enbridge's Segments A and B; and
b) Other conditions as are customary for these types of facilities.

EB-2012-0451 GTA Reinforcement Project

A) RELATED ISSUES – GTA Reinforcement

Issue A1 *Are the proposed facilities needed? Considerations may include but are not limited to demand, reliability, security of supply, flexibility, constraints, operational risk, cost savings and diversity as well as the Board's statutory objectives.*

39. The GTA reinforcement project consists of 2 segments: Segment A and Segment B. Segment A, consists of a 27.4 km, NPS 42 pipeline and is represented by the portion of the GTA Reinforcement Project extending from Parkway to Albion.[29] Segment A provides for both distribution use as well as transmission use. Segment A also includes a 0.7 km NPS 36 pipeline and a new Parkway West Gate Station to interconnect with Union.[30] Segment B is a NPS 36 pipeline and is represented by that portion of the project extending from Keele/CNR station westerly for 15.4 km to the north-south transmission corridor between Pharmacy and Warden,[31] then extending southerly for 7.6 km.

40. Enbridge has dedicated 800 TJ/d of capacity of Segment A for distribution purposes and the remaining 1200 TJ/d for transmission purposes.[32]

41. Enbridge has been clear in its evidence that the portion of Segment A's capacity that will be used to meet its distribution requirements (800 TJ/d) will be used to reduce the delivered gas costs and to increase its security of supply for its customers.[33] Enbridge will shift a portion of their existing gas supply arrangements from the WCSB to Dawn and Niagara,

[29] EB-2012-0451 Exhibit B Tab 1 Schedule 1 paragraph 5
[30] Ibid.
[31] EB-2012-0451 Exhibit A Tab 2 Schedule 1 paragraph 16 (2013-07-22)
[32] EB-2012-0451 Exhibit A Tab 3 Schedule 1 paragraph 9 (2013-06-03)
[33] Ibid.

which is currently under short term discretionary arrangements.[34] This lower gas cost benefit will accrue only to those bundled customers buying system gas from Enbridge. These supplies will enter the Enbridge system at Parkway and avoid using the TransCanada Mainline from western Canada. Enbridge will shift 400 TJ/d immediately and 200 TJ/d will be used for future growth.[35] This 200 TJ/d of future growth is intended to accommodate the expected 190 TJ/d of forecast growth from 2015 to 2025.[36] Alternatively, this load growth could also be met by increasing its contracted volumes on TransCanada for delivery to Victoria Square. However, Enbridge has chosen not to do this and relies on a portion of the capacity in Segment A to source these future volumes from Dawn/Niagara.[37] A further 200 TJ/d is being set aside for those direct purchase customers who use upstream discretionary (i.e. interruptible or short term firm) service to deliver their supplies to Enbridge.[38] Allowing direct purchase customers that use discretionary services will also increase the reliability of supply for Enbridge. Enbridge has been advocating that direct purchase customers have firm upstream arrangements for some time. It is clear that Segment A will duplicate capacity that already exists in the XHP system for system supply and those direct purchase bundled customers who are relying on discretionary services. APPrO supports the development of Segment A provided that the costs of Segment A are paid for by the customers that are deriving the benefit of the new pipeline.

42. Segment B is proposed to serve a variety of functions, including:

    a) First and foremost, Segment B is required to complete the strategy to shift gas supply volumes from Victoria Square to Parkway. Currently volumes received at

[34] Transcript Volume 6 page 103
[35] Ibid
[36] Transcript Volume 4 page 51
[37] Transcript Volume 6 page 103
[38] Transcript Volume 6 page 26

Victoria Square are transported southerly on the Don Valley line. It is clear from the schematic map provided at Exhibit A/Tab 3/Schedule 4/Attachment/Figure 2, that the current direction of flow that exists in the XHP system on the east-west 26" line (green line in the schematic), is in easterly direction into the north-south Don Valley line. Shifting 600 TJ/d of flow from Victoria Square to Parkway will require more easterly flow capacity in the 26" line into the Don Valley line. This is confirmed by Mr. Naczynski:

> *As we look at the number of statements that are made within this piece of evidence, the east-west portion of segment B1, I believe we've already demonstrated through other evidence that that segment is absolutely required to be able to take the gas away from Albion, in order to achieve those supply benefits that we've indicated and are contemplating in this project.* [Emphasis added][39]

b) Enbridge proposes to reduce the operating pressure of the east-west 26" line and the north-south Don Valley line[40] At the current operating pressures, the percent specified minimum yield stress (% SMYS) is over 30%. Lowering the operating pressure on these lines will reduce the % SMYS to below 30%, which results in a safer, more reliable pipeline. These lines traverse populated areas of the City of Toronto. A rupture of these lines could present a risk to the public. APPrO therefore supports the pressure reduction of these lines. Segment B will replace the lost capacity resulting from the proposed pressure reduction in the 26" and Don Valley lines. This lost capacity in this case is 165 TJ/d.[41]

c) The third use for Segment B is to meet the load growth at Station B over the 10 year forecast period. This growth is expected to be 15 TJ/d.[42]

[39] Transcript Volume 5 page 77
[40] EB-2012-0451 Exhibit A Tab 3 Schedule 3 paragraph 32 (2012-12-21)
[41] EB-2012-0451 Exhibit I.A1.BOMA.15 a)
[42] Undertaking J1.11

43. APPrO supports the development of Segment B provided that the costs of adding the capacity are borne by those parties that are benefiting from the capacity that is being added in accordance with cost causation principles.

Issue A2 *Do the proposed facilities meet the Board's economic tests as outlined in the Filing Guidelines on the Economic Tests for Transmission Pipeline Applications, dated February 21, 2013 and E.B.O. 188 as applicable?*

Issue A3 *Are the costs of the facilities and rate impacts to customers appropriate?*

44. The GTA reinforcement project will result in rate increases to unbundled Rate 125 and Rate 300 of 23.5% and 8.6%, respectively.[43] All other bundled rate classes have increases in the 0.6-1.8% range.[44] When the gas supply benefits are incorporated into these rate impact analyses, Rates 125 and 300 continue to increase by the above noted amounts, whereas all other bundled rate classes have effective rate reductions ranging from -2.2% to -7.3%.[45] This clearly demonstrates that this reinforcement project, from a gas supply savings perspective, is being done only for the benefit of bundled customers.

45. A small portion of the proposed capacity that is being added (165 TJ/d) in the GTA Reinforcement Project relates to the replacement of existing capacity in the XHP system. This new capacity is required to replace the capacity lost from reducing the operating pressure of the 26" east-west and Don Valley lines. Enbridge proposes to lower the operating pressure of these systems for safety and reliability reasons. APPrO supports this

[43] EB-2012-0451 Exhibit A Tab 3 Schedule 9 paragraph 33 (2013-7-22)
[44] Ibid.
[45] Ibid. paragraph 34

initiative and believes that all customers utilizing this XHP capacity should be responsible for the costs related to replacing this capacity.

46. Most of the $686.5 million[46] in capital cost of building the GTA reinforcement is to provide capacity for purposes other than to replace capacity lost in pressure reductions referenced above. APPrO believes that the costs of providing the capacity in the GTA reinforcement project should be borne by those parties benefiting from the reinforcement. These include:

  a) 1,200 TJ/d for transmission customers on Segment A for 3rd party transmission purposes.[47]
  b) 600 TJ/d of capacity on Segment A and Segment B to facilitate a shift in gas supplies from Victoria Square to Parkway, benefitting system gas customers and direct purchase customers that use discretionary services.[48]
  c) 200 TJ/d for future growth of system gas and other non-contract bundled customers.[49]
  d) 165 TJ/d to replace capacity lost from derating the 26" and Don Valley lines for all parties using the XHP system.
  e) Construction of the duplicate Parkway Bypass receipt station and related pipeline[50] to increase security of supply which will benefit smaller and heat-sensitive customers. The capital cost of this duplication station has been covered under the confidentiality provisions[51] so the amount of this cost is not publically available.

It is clear that the vast majority of the benefits of this project accrue to bundled or

[46] EB-2012-0451 Exhibit C Tab 2 Schedule 1 paragraph 1 (2013-7-22)
[47] EB-2012-0451 Exhibit A Tab 2 Schedule 1 paragraph 9 (2013-7-22)
[48] Transcript Volume 6, page 104.
[49] Transcript Volume 6 page 103 and EB-2012-0451 Exhibit A Tab 3 Schedule 4 Table 3
[50] EB-2012-0451 Exhibit A Tab 3 Schedule 1 paragraphs 13 and 14
[51] EB-2012-0451 Exhibit I.A3.EGD.ED.37i)

transportation customers.

47. To summarize, APPrO submits that: i) the costs of providing capacity in the GTA reinforcement project should be borne by those parties benefiting from the reinforcement in accordance with cost causation principles; and ii) the evidence supports that the vast majority of the benefits of this project accrue to bundled or transportation customers. APPrO submits, therefore, that the rate increases to unbundled customers are <u>not</u> appropriate. APPrO will address this in Enbridge's EB-2012-0459 Customized IRM rate application.

Issue A4 *What are the alternatives to the proposed facilities? Are any alternatives to the proposed facilities preferable to the proposed facilities?*

48. GEC has proposed through the evidence filed by Mr. Chernick that Segment B can be deferred though a combination of strategies. One of these strategies was to curtail as necessary the firm transportation service currently contracted to the Portlands Energy Centre (PEC).[52] APPrO strongly opposes GEC's proposal.

49. PEC has a long term firm Rate 125 unbundled transportation service agreement with Enbridge to transport gas from Victoria Square to its plant on the waterfront. For the following reasons, APPrO submits that <u>there is no basis to change the current firm Rate 125 transportation contract between Enbridge and the PEC</u> (such a change <u>cannot</u> occur without PEC being an active and willing party):

    a) Firstly, Rate 125 service is based on a long term commercial arrangement between Enbridge and PEC. PEC has been in commercial operations since 2009,[53] and PEC paid millions of dollars to aid construction and have that capacity constructed for

[52] Exhibit L.EGD.GEC.1 Page 23
[53] June 28, 2013 IESO Letter of Comment page 4

PEC.[54] PEC relies on its ability to transport gas under the Rate 125 service to fulfill its obligations to produce power.

b) Secondly, this transportation service backstops complex commercial arrangements between PEC and the OPA,[55] as well as with lending institutions (and potentially other parties). Changing the ability of PEC to produce power of a firm basis could have serious implications on these commercial arrangements (i.e. if PEC cannot generate what it needs to, it will be unable to pay its bills).

c) Thirdly, in its Letter of Comment, the IESO confirmed the vital role that PEC plays in supplying downtown Toronto:

"Since PEC achieved commercial operation in 2009, it has played a vital role to secure the supply to downtown Toronto. Based on its location, it is not only needed to meet demand during peak demand days but also to allow maintenance outages of various local transmission elements to proceed".[56]

Furthermore the IESO confirmed that "in each of the four winter seasons since becoming dispatchable, Portlands has been online during the peak winter day."[57] Clearly PEC provides an essential service in meeting the peak power requirements of GTA.

d) Fourthly, Mr. Chernick was not qualified as an expert in the area of commercial power plant operations. He thus does not have the necessary knowledge to comment on the commercial implications of changing the transportation arrangements to a power plant, and his evidence on this matter should be given no weight.

[54] Transcript Volume 6 page 117
[55] June 28, 2013 IESO Letter of Comment page 4
[56] Ibid.
[57] Exhibit M.IESO.GEC.20a)

50. It should be noted that while Mr. Chernick implied that PEC may have over contracted for Rate 125 capacity,[58] he also admitted that he has no first-hand knowledge of any over contracting of capacity by PEC.[59] There is no basis to conclude that PEC has over contracted for capacity in excess of its requirements.

51. In addition, during Mr. DeRose's cross examination of Enbridge, he asked the following question with respect to the facilities that were added when PEC came on line:

> *"And so the question is: Why are we now reinforcing something that is relatively -- not reinforcing, but providing additional capacity for a construction and facilities project that was approved and constructed approximately six years ago, seven years ago?*[60]

52. While this question could be read to imply that Enbridge may not have constructed sufficient facilities to meet PEC's contracted requirements when the Don Valley line was initially reinforced to provide service to PEC, Mr. Fernandes' response clearly dispels this notion:

> *And the requirement then was to replace the lost capacity on the system in order to ensure that the other ratepayers were not impacted by them coming on the system.*[61]

53. In response to an interrogatory from APPrO, Enbridge confirmed that the facilities that were added pursuant to EB-2006-0305 not only added sufficient capacity to meet PEC's contract loads (i.e. utilizing any spare capacity that existed in the XHP system), but also fully restored the operational characteristics of the distribution system to the condition that it was in prior to the PEC load being added.[62] Similarly Enbridge also confirmed that PEC is not changing its contractual volumes.[63]

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[58] Exhibit L.EGD.GEC.1 Page 26
[59] Transcript Volume 7 page 99
[60] Transcript Volume 4 page 114
[61] Transcript Volume 4 page 114
[62] EB-2012-0451 Exhibit I.A1.EGD.APPrO.2c)
[63] Ibid. 2a)

54. APPrO submits that: i) there is a complete paucity of evidence and no sound evidentiary basis to conclude that Portland Energy Centre's requirements, in any way, are driving the need to construct Segment B other than the need to restore its proportionate share of the lost capacity from the pressure reduction in the 26" and Don Valley Lines; and ii) the alternatives proposed by GEC are inappropriate and should not be granted by the Board.

Issue A5 *Is the proposed timing of the various components of the projects appropriate?*

Issue D1 *Do the facilities address the OEB Environmental Guidelines for Hydrocarbon Pipelines as applicable?*

Issue D2 *Are there any outstanding matters for the proposed facilities' routing and construction? For greater clarity, landowners include parties from whom permits, crossing agreements and other approvals are required.*

Issue D3 *Are the proposed facilities designed in accordance with the current technical and safety requirements?*

Issue D4 *Has there been adequate consultation with affected First Nations or Metis communities?*

Issue D5 *Should approval of Enbridge's proposed rate methodology for the service to be provided to TransCanada be granted?*

Issue D6 *If the Board approves the proposed facilities, what conditions, if* *any, are appropriate?*

55. APPrO submits that approval of the GTA Reinforcement should be conditional upon the following:

a) Since Segment B is critical to the gas supply shift strategy[64], approval of Segment B as currently configured should be conditional on Segment A being approved and constructed; and

b) Approval of Segment A should be dependent on the development of the Parkway Compressor D project.[65]

Gas Market Review Proposal

56. APPrO member generators are in the situation where they have been subject to very significant increases in natural gas transmission costs and, as a result of the structure of the power market; they are not able to benefit from lower commodity costs. APPrO thus urges the utilities to take all reasonable steps to rationalize new infrastructure costs both in this application and in all future expansions that will provide their customers further access to new competitive shale gas supplies.

57. On the eve of the oral part of this proceeding, a major development occurred in the form of a Settlement Agreement between the 3 Eastern Canadian LDCs and TransCanada. This was the subject of informal discussions with the intervenors, a technical conference and a joint panel day to assess the impact on these facility applications. APPrO appreciates the extraordinary effort among the utilities to reach a commercial settlement to provide more market certainty than had existed previously. This Settlement Agreement sets certain tolling principles through to 2030. It would, however, further increase long haul tolls to Ontario and

[64] Transcript Volume 5 page 77
[65] Transcript Volume 2 page 109

short haul transmission tolls within Ontario by 19% and 55% respectively[66] putting even more financial pressure on all remaining parties relying on TransCanada Mainline services. These tolls are expected to remain in place until 2021 subject to several other regulatory matters in front of or expected to be in front of the NEB over the next several years. These include the NEB's land matter consultative initiative and TransCanada's Energy East Project[67]. There may also be a potential mid-period adjustment to reflect changes to system billing determinants[68]. While the utilities rationalize that these toll increases would have eventually occurred on the TransCanada Mainline post 2017, this eventuality was far from certain and would require adjudication by the National Energy Board (NEB).

58. The Settlement Agreement has not yet been submitted to, nor approved by the NEB, however the facility applications before the Board depend on, to varying degrees, not only the approval of the Settlement Agreement and the resulting tolling consequences, but also resulting facilities that would be constructed by TransCanada to accommodate the market access. The Board will need to consider these interdependencies in rendering its decisions in these applications.

59. These applications also make it clear that Marcellus gas is having a more significant impact than anticipated several years ago. As indicated in ICF International's report filed in this proceeding:

> *ICF estimates that significant new pipeline capacity from the Marcellus and Utica shale production regions will be required to meet demand growth in eastern Canada.* [69]

[66] Final Mainline Settlement Agreement clause 13.2 (d) (ii) and (i)
[67] Settlement Agreement Clause 4.2 b)
[68] Ibid.
[69] *Impact of Changing Supply Dynamics on the Ontario*, ICF International (January 30, 2013), EB-2012-0433, Schedule 4-7,page 6

60. The magnitude of change and potential customer costs resulting from the Applications is eminently evident in evidence. Due to the rapidly changing nature of the supply situation, APPrO submits that the Board should consider undertaking additional natural gas market reviews in the future. This would allow the Board and other interested parties to monitor and understand current trends and major infrastructure developments. This would not only help to ensure that infrastructure additions are planned on a rational basis and all parties can be informed of potential future developments, but it would also provide the Board an opportunity to see if any of its polices need to be updated to reflect these emerging trends.

61. Consequently, APPrO requests that the Board monitor the impacts and sector-wide implications by requiring the Applicants to participate in mandated natural gas market reviews on a triennial basis.

Summary – Relief Requested

62. In summary, APPrO respectfully requests the following relief on the basis of the arguments set out below:

    a) While APPrO does not oppose the development of Parkway West compressor station, APPrO does question whether all M12 shippers and all Union South infranchise should be paying for the costs of this added reliability. In the event that the Board does not approve the Parkway Growth projects and the GTA Reinforcement, APPrO respectfully requests that the Board delay any approval of the Parkway West project until such time as the Parkway facilities accommodate a greater share of the Ontario volumes.

    b) In the event that the Board approves the construction of the Parkway West Project, APPrO supports the pre-approval of the cost consequences of development, but only up to the current estimated costs of $219 million and to the extent that the projects actually come into service and are used and useful. APPrO also respectfully requests that the Board expressly stipulate this limitation in any resulting order and rule that any variances from such amount would be subject to the Board's further review and not subject to pre-approval.

c) In the event that the Board does not approve either the Parkway D facilities or the Enbridge GTA facilities required to receive gas at the new gate station, then Union may need to modify the Parkway West design to reflect such outcomes. APPrO requests that the Board require any pre-approved capital costs to be adjusted to reflect these potential outcomes.

d) In response to Union's proposed Parkway Growth Projects, while APPrO is supportive of Union's addition of new facilities to serve the incremental contract load, this support is contingent on the market conditions and other related information advanced by Union for its existing and new markets to come to this position.[70] Given the dynamic market, APPrO requests that the Board require Union to monitor and report regularly to stakeholders (at Union's Annual Stakeholder Meeting) on all relevant markets using M12 capacity with access to alternative competitive supplies, in order to ensure that the Dawn-Parkway facilities continue to be fully contracted to reduce the risk and customer cost consequences of unutilized capacity.

e) In response to Union's proposed Parkway Growth Projects, while APPrO agrees with Union that there are no other reasonable alternatives to provide this growth capacity at this time (other than for these markets to continue to purchase their supplies from

[70] Ex I.A1.UGL.Staff.10c)

the WCSB and ship long haul on the TransCanada Mainline), APPrO's position is reliant upon Union's assessment of the existing, and potential future growth for its Dawn-Parkway market[71]. As a result, APPrO respectfully requests that the Board reflect that APPrO's positions in support of the facilities are contingent on the evidence in this proceeding, and should such market assessment prove to be materially inaccurate, it would have affected its final position on the related portions of the Application. Union's assessment and understanding of its transportation market is of critical importance to ensure that the Dawn-Parkway facilities are not oversized/overbuilt.

f) In relation to Union's proposed Parkway Growth Projects, APPrO is not opposed to Union recovering the cost consequences of the facilities up to $204 million, once the assets have been put into service, the assets are used and useful, and all of the transportation contracts are in effect. APPrO respectfully requests, however, that in the event the facilities are not put into service, or the contracts do not come into effect, that the Board should require that portion of the costs associated with third party M12 contracts to be excluded from the costs pre-approved for recovery from all M12 customers. Similarly for that portion of the capacity (70,157 GJ/d) being added for Union's system supply customers in Eastern Ontario, APPrO respectfully requests that, in accordance with the cost causation principles of ratemaking, the Board require that these customers bear the financial responsibility in the event that the facilities are not put into service or do not become used and useful.

g) Regarding Union's proposed Parkway Growth Projects, APPrO understands that Union's request is only for pre-approval of the applied for cost estimate, and that

[71] Ibid.

variances would be captured in a variance account that would be subject to the Board's review. APPrO therefore requests that the Board should require any variances to be subject to the Board's further review and not subject to this pre-approval.

h) Regarding Enbridge's GTA project, APPrO supports: i) the development of Segment A provided that the costs of Segment A are paid for by the customers that are deriving the benefit of the new pipeline; and ii) the development of Segment B provided that the costs of adding the capacity are borne by those parties that are benefiting from the capacity that is being added in accordance with cost causation principles.

i) Regarding Enbridge's GTA project, APPrO submits that the vast majority of the benefits of this project accrue to bundled or transportation customers. APPrO submits, therefore, that the level of rate increases to unbundled customers is inappropriate and requests that the Board disallow such rate increases at this time. APPrO will address this in Enbridge's EB-2012-0459 Customized IRM rate application.

j) Regarding Enbridge's GTA project, APPrO submits that: i) the alternatives proposed by GEC are inappropriate and should not be granted by the Board; and b) there is a complete paucity of evidence and no sound evidentiary basis to conclude that Portland Energy Centre's requirements, in any way, are driving the need to construct Segment B, other than the need to restore its proportionate share of the lost capacity from the pressure reduction in the 26" and Don Valley Lines.

63. In addition, APPrO submits that the Board should engage in additional natural gas market

reviews in the future, similar in nature to the review conducted in 2010 pursuant to EB-2010-0199. In providing this final argument, APPrO submits that the magnitude of change and potential customer costs resulting from the Applications is eminently evident in evidence. As a result, APPrO requests that the Board monitor the impacts and sector-wide implications by requiring the Applicants to participate in mandated natural gas market reviews on a triennial basis.

All of which is respectfully submitted this 15th day of November, 2013.