ONTARIO ENERGY BOARD

Enbridge Gas Inc.

Application for natural gas distribution rates and other charges effective January 1, 2020

Industrial Gas Users Association (IGUA)

ARGUMENT

Ongoing Inequity

1. In June, 2016 (then) Union Gas applied to the OEB for leave to construct (LTC) a reinforcement of its Panhandle System.[1]

2. The Panhandle system is the primary pipeline transporting natural gas between Dawn and the Ojibway Valve Site in Windsor in order to serve customers in Southwestern Ontario; in particular Chatham-Kent, Windsor, Lakeshore, Leamington, Kingsville, Essex, Amherstburg, LaSalle and Tecumseh (Panhandle Market).[2]

3. In response to interrogatories in the current proceeding Enbridge Gas Inc. (EGI) filed a map of the Panhandle system.[3] That map illustrates the Dawn Parkway Transmission System's western terminus at Dawn, from where the EGI system splits off into;

   (a) the Panhandle System serving the Panhandle Market; and

   (b) the Sarnia Industrial Transmission System serving Union rate zone customers in the Sarnia area and connecting to the St. Clair Transmission Line (together referred to as in this argument as the St. Clair System).

[1] EB-2016-0186.
[2] EB-2016-0186, ExA/T3.
[3] ExI.APPrO.1, Attachment.

4. The Panhandle System and the St. Clair System also provide ex-franchise transportation services (under Rate C1) to and from Dawn between Ojibway to the south and the St Clair River Crossing and Bluewater River Crossing to the north. In addition, the Panhandle System provides transportation services to and from storage facilities west of Dawn under Rate M16. [4]

5. Union's 2016 LTC application was driven by firm demand growth in the Panhandle Market, particularly from the greenhouse sector,[5] but also from commercial and small industrial customers and some anticipated residential growth. The prominence of the Southwestern Ontario greenhouse sector growth in driving the Panhandle Reinforcement Project was highlighted by letters of support provided to Union and filed by Union in support of its 2016 Panhandle Reinforcement LTC application.

6. A letter dated April 6, 2016 from the Ontario Greenhouse Vegetable Growers (OGVG) and filed by Union in support of its 2016 LTC application[6] emphasized;

   (a) the Ontario greenhouse sectors' 5.8% record of expansion over the preceeding 8 years, and the expectation that growth would continue;

   (b) the importance to continued growth of the sector of sufficient access to natural gas;

   (c) the concern that the then current gas infrastructure in the Essex and Chatham-Kent regions was at capacity and expansion of service was necessary to support further economic development in the region;

   (d) that many growers in the region were on interruptible gas service as firm service was not available; and

   (e) that the proposed Panhandle System expansion would *"greatly add to the stability of production economics"* in support of continued growth and wellbeing of the greenhouse sector, and the regional economy in general.

7. Other letters of support for the project which specifically emphasized the driver of greenhouse sector growth for the Panhandle Expansion Project were provided by South-Western Ontario municipalities, counties and townships, the Ontario Federation of Agriculture, and local Chambers of Commerce. (Additional letters of support included a

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[4] ExI.APPrO.1, Attachment; ExI.OGVG.5 and ExB/T1/S1/AppC/p10, paragraph 20.
[5] EB-2016-0186, ExA/T3/p2/lines 11-14; p3, line 4; ExA/T4/S1; ExA/T5/p10, line 11 – p11, line 8; ExA/T5/p18, line 12 – p.19, line 13; ExA/T5/S2/pp2, 4, 5, 12, 19.
[6] EB-2016-0186, ExA/T5/S2/p5.

health care facility, Fiat Chrysler Automobiles, a small industrial Aluminum Extrusion facility and the Windsor Regional Hospital.)[7]

8. In response to this growth in demand, Union proposed, and ultimately built, approximately 40 km of NPS 36 pipeline to replace an existing NPS 16 pipe running from Union's Dawn Compressor Station to its Dover Transmission Station, and invested in related modifications at several stations along the balance of the Panhandle System. The project had an OEB approved capital budget of $264.5 million and was put into service in November, 2017.

9. As part of its 2016 LTC application, Union proposed a departure from its previously approved methodology for allocating Panhandle System costs.[8] The Panhandle System and the St. Clair System had been combined for cost allocation since Union's Rate C1 was first included in Union's cost allocation in 1999. The primary reason for combining the two systems was because both systems provide transportation service between the river crossings west of Dawn and the Dawn Compressor Station.[9] In its 2016 LTC filing Union explained[10] why that legacy cost allocation approach was no longer appropriate;

> *Union is proposing a cost allocation for the Project that is different than the Board-approved cost allocation methodology because the existing methodology allocates costs based on the combined Panhandle System and St. Clair System. With the addition of the significant Project costs related only to the Panhandle System and no change to the cost of the St. Clair System, the use of the combined system for cost allocation purposes no longer reflects the costs to serve the customers on each respective transmission system.*

10. The estimated 2019 revenue requirement of the St. Clair System is $2.250 million. The estimated 2019 revenue requirement of the Panhandle System is $38.195 million. ***In 2019 the revenue requirement for the Panhandle System is almost 17 times that of the St. Clair System.***[11]

11. Attachment A to this argument is Union's response to a transcript undertaking provided to the Hearing Panel in Union's 2016 Panhandle Reinforcement Project LTC application following questions asked by the Hearing Panel on Union's proposal in that proceeding

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[7] EB-2016-0186, ExA/T5/S2/
[8] EB-2016-0186, ExA/T8.
[9] EB-2016-0186, ExJ1.2/Att2 (included as Attachment A to this argument), p1, paragraph 1.
[10] EB-2016-0186, ExA/T8/p7, lines 1-7.
[11] ExI.IGUA.4.

for allocation of Panhandle Reinforcement Project costs. The undertaking response explains the historical basis for allocation of Panhandle System cost and St. Clair System costs on a combined basis, and why Union was proposing an alternative approach.

12. Since its 2016 LTC application it had been Union's position, and we assume that it remains EGI's position, that allocating Panhandle System costs - which now exceed St. Clair System costs by a factor of 17 - based on combined St. Clair and Panhandle System demands to customers with only St. Clair and no Panhandle System demands would not be fair and is no longer reasonable.[12]

13. In 2016, Union proposed to address this inequity by allocating the incremental Panhandle Expansion Project costs to customers based on Panhandle System design day demands, and thus *"allocating costs to rate classes that use the Panhandle System and are driving the need for the [Panhandle Reinforcement] Project"*. [13]

14. As part of its 2016 Panhandle Expansion Project LTC application Union also requested approval to calculate the revenue requirement and resulting rates of the Panhandle Expansion Project using a 20-year depreciation term rather than a 50 year depreciation term.[14] The basis for this request was a posited *"significant risk to the return of any capital invested in natural gas infrastructure"* as a result of the (then) Ontario government's 5-year (2016-2020) Climate Change Action Plan and related government statements regarding transitioning off of natural gas.[15]

15. The Board's findings on Union's proposed recovery of Panhandle Reinforcement Project costs were as follows[16] (our emphasis):

> *The OEB will not approve Union's proposals for a 20-year depreciation period and a revised cost allocation methodology. The OEB finds that both proposals should be deferred to Union's next cost of service or custom IR application. It would be inconsistent to change the depreciation term and cost recovery for one project while Union's other assets are depreciated and recovered on a different bases. A comprehensive review is required for parties to test, and the OEB to assess, the merits and implications of these two proposals and this should be at Union's next cost of service or custom IR application.*

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[12] EB-2016-0186, ExJ1.2/Att2 (included as Attachment A to this argument).
[13] EB-2016-0186, ExJ1.2/Att2 (included as Attachment A to this argument), page 3, bottom paragraph.
[14] EB-2016-0186, ExA/T3/p7/lines 9-18.
[15] EB-2016-0186; ExA/T3/p5, lines 18-21, *et seq.*
[16] EB-2016-0186 *Decision with Reasons* February 23, 2017, page 10, bottom.

> *While these proposals may have merit, they cannot be adequately considered during the IRM term, for one project in isolation. A leave-to-construct application requesting a capital pass-through mechanism for cost recovery* ***over 14 months*** *is not the appropriate forum to consider deviations from principles embedded in current OEB-approved rates.*

16. The Board's reference in this passage from its determination of the issue to *"14 months"* is important. Earlier in its discussion of this issue the Board noted[17] (our emphasis):

> *Union proposed two changes to the cost allocation methodology approved by the OEB when rates were established in 2013. The proposed cost allocation would determine how Project costs would be recovered* ***until 2019****, the end of Union's current IRM term.*

17. ***The LTC decision deferring issues regarding the equity of allocating Panhandle Expansion Project costs based on combined Panhandle System and St. Clair System demands was made on the expectation that Union would be rebasing its rates, including addressing Panhandle System and any other cost allocation issues, for January 1, 2019.***

18. The St. Clair System has a large Rate T2 customer base, and using design day demands on the Panhandle System to allocate costs results in an allocation to Rate T2 that is not representative of their use of the Panhandle System.[18]

19. In Union's 2018 rate case (EB-2017-0087) IGUA sought to file evidence intended to provide the Board and interested parties with information on the impact on IGUA's Sarnia area members of the allocation of Panhandle Reinforcement Project costs using the 2013 Board-approved cost allocation methodology rather than methodology for allocation of incremental Panhandle Reinforcement Project costs proposed by Union in its 2016 LTC application. That evidence articulated the circumstances of 4 IGUA member companies served primarily under Rate T2 whose collective daily contract demand is over 5 million cubic meters and who collectively consume almost 2 billion cubic meters of gas per year, almost all of which is delivered via Union's St. Clair System and almost none of which contributes to the design day demand on the Panhandle System. The evidence presented the aggregate impact on these 4 IGUA members, as confirmed by Union, of using the

[17] EB-2016-0186 *Decision with Reasons* February 23, 2017, page 9, 3rd full paragraph.
[18] EB-2016-0186, ExJ1.2/Att2 (included as Attachment A to this argument), page 1, paragraph 4.

historical vs. proposed cost allocation methodology for incremental Panhandle Expansion Project costs. In 2018 that impact was just under $1 million.

20. ***IGUA's 2017 evidence was rejected by the Hearing Panel in Union's 2018 rate application and was never attested to or tested.*** Accordingly, and having referred to it above, while we have filed a copy of that evidence with this argument (as Attachment 2), we do not (because as a matter of procedure we cannot) rely on it as demonstrative of the truth of its contents. Rather we reference that filing in this argument as illustrative IGUA's longstanding engagement on this issue and its concern at the time, which remains IGUA's concern today, that there are gas consumers, including the 4 large volume Rate T2 contract customers referenced in that 2017 evidence;

(a) whose significant gas demands are for all intents and purposes served by the St. Clair System and who do not in any way rely on or utilize the Panhandle System; but

(b) whose rates have since 2018 included, and continue today to include, an allocation of the costs of the Panhandle System which are now 17 times higher than the costs of the St. Clair System on which these customers actually rely for gas service.

21. The Hearing Panel seized of Union's 2018 rate application, in rejecting IGUA's proposed 2017 evidence, stated[19] (our emphasis):

> *The OEB is of the opinion that cost allocation issues can be better addressed prior to Union entering another price cap rate mechanism framework. It would not be appropriate to address cost allocation changes <u>in the last year of the current IRM framework</u> where rate changes are supposed be mechanistic. Furthermore, the merger Application of Union and Enbridge has not yet been approved, and <u>it is possible that Union and Enbridge could be required to file evidence dealing with some components of rebasing applications</u>. The OEB is of the opinion that any cost allocation changes are appropriate to be considered <u>for the setting of 2019 rates</u>.*

22. When other stakeholders refer to negative impacts of changing the way that Panhandle System costs are allocated, they are, with respect, missing the point entirely. The interim allocation proposed by Union Gas in 2016 and referenced by IGUA in 2018, and the updated allocation since argued for by IGUA and now proposed (in a way) by EGI, would <u>rectify</u> a negative, undue, and unfair rate impact <u>that has existed in the rates of T2 customers</u>, including IGUA's 4 Sarnia area members, and other customers <u>since 2018</u>,

[19] EB-2017-0087, Procedural Order No. 3, page 2, last paragraph.

and continues to exist today. ***These Panhandle Reinforcement Project costs should never have been allocated to these customers, and should always have been recovered from customers who actually rely on, and benefit from, the Panhandle System and the expansion of that system approved by the Board in 2017.***

23. Despite its proposed 2017 evidence being rejected by the Board, IGUA was permitted to, and did, advance argument based on the record already compiled in Union's 2018 rates proceeding for alternative remedies to the existing inequity for customers served by the St. Clair System resulting from the legacy Panhandle System/St. Clair System cost allocation methodology. While the Board declined to grant relief as advocated by IGUA in that case (IGUA argued that the Board should declare Union's 2018 rates interim pending resolution of the Panhandle expansion cost allocation issue), the Board in its decision on Union's 2018 rates reiterated its expectation that[20] (our emphasis):

> *The issue of the allocation of these costs on a going-forward basis to Union rate classes will be dealt with in Union's 2019 rates proceeding.*

24. Union did not address Panhandle Reinforcement Project costs in the merger application as the 2018 Hearing Panel indicated might be the case. Union did, however, indicate in that case that[21] (our emphasis):

> *The Board-approved cost allocation methodology causes significant impacts to certain rate classes, and in response to concerns raised by customers, Amalco intends to address the cost allocation of the Panhandle System and St. Clair System in its 2019 Rates Application.*

25. Mr. Kitchen's testimony in the merger application was that Amalco (now EGI) would be able to propose adjustment to the allocation of Panhandle System costs for 2019 absent a full cost allocation study because the costs in issue are *"isolated to one functional classification"*.[22]

26. Mr. Kitchen had in earlier testimony in that case responded to a question from the Hearing Panel and indicated that, subject to a number of necessary assumptions (given the lack

[20] EB-2017-0087, *Decision and Rate Order*, page 8.
[21] EB-2017-0307, ExB/T1/p31, lines 16-19.
[22] EB-2017-0306/0307, Transcript Volume 5, p58, lines 14-16.

of a combined entity cost allocation study), it would be possible for Union to run a cost allocation study during the proposed rebasing deferral period.[23]

27. In its argument in the merger application IGUA urged that, regardless of the determination in that case of when EGI would be required to file a cost of service application, the Hearing Panel clearly direct EGI to file sufficient cost allocation information in its 2019 rate application to finally address a more equitable allocation of Panhandle Expansion Project costs.[24]

28. In its *Reply Argument* in the merger case, in response to arguments filed, including a request from IGUA that EGI definitively address in reply how an update to cost allocation for Panhandle Expansion Project costs would be effected, EGI stated[25] (our emphasis):

> *The Applicants have fully met submissions and concerns about a cost allocation study from Amalco by making a commitment, as described above, that Amalco will complete two cost allocation studies during the [proposed 10 year] deferred rebasing period and will consult with OEB Staff and Intervenors on rates derived from each study.*
>
> *Notwithstanding the proposal that Amalco will file cost allocation studies, it is important to be clear that the Applicants consider existing cost allocation methodologies to be appropriate. Union's 2013 cost allocation study allocated costs in an appropriate manner and was approved by the OEB at that time. Subsequent to the 2013 cost allocation study, Union included incremental costs in rates using Board-approved methodologies. The existing methodologies appropriately allocated incremental costs with the exception of the Panhandle revenue requirement.*
>
> *The Panhandle project is unique as it involved incremental costs not considered in the 2013 cost allocation study. If Union had known about the project at the time of the 2013 cost allocation study, it would have proposed an alternative allocation methodology at that time. In the pre-filed evidence for the Price Cap Application, the Applicants stated unequivocally that Amalco will address the cost allocation of the Panhandle system and the St. Clair system in the 2019 rate application.*
>
> *The Applicants have also made clear their expectation that cost allocation for the Panhandle system and the St. Clair system can be addressed as a discrete cost element within one functional classification. OEB Staff submit that the review of Panhandle and St. Clair cost allocation should not be completed until a comprehensive cost study is filed. However, the Applicants submit that the Board should not pre-judge whether cost allocation for Panhandle and St. Clair can be*

[23] EB-2017-0306/0307, Transcript Volume 5, p48, line 23 – p49, line 7.
[24] EB-2017-0306/0307, IGUA Argument, paragraph 62.
[25] EB-2017-0306/0307, Reply Argument, paragraph 229 – 233.

assessed as a discrete cost element before the Board has even seen and considered Amalco's 2019 filing.

29. It is the Board's decision in the merger case that has given rise to the cost allocation issue in the instant proceeding. Starting at page 40 of its decision in the merger case the Board summarizes the positions of EGI and parties on the Panhandle System and St. Clair System cost allocation issue. Those positions were advanced in the context of EGI's proposal for a 10 year rebasing deferral, and various positions by other parties for rebasing deferrals of different (shorter) lengths. In that case, some parties (APPrO, Kitchener and IGUA) argued for a new cost allocation determination in order to correct *"significant cost allocation inequities"*. Others (OEB Staff, OGVG, LMPA and CCC) argued that *"discrete cost allocation changes were not appropriate in the absence of a comprehensive cost allocation study"*. TransCanada argued its own cost allocation issue in that case (the Rate C1 Dawn to Dawn-TCPL transportation rate based on Dawn transmission compression related costs for facilities already fully depreciated). These arguments led the Board to direct EGI to file, for consideration in this 2020 rates proceeding, an update to cost allocation. The salient passage merits repeating (our emphasis)[26]:

> *… the OEB is concerned about the cost allocation issues raised by parties for Union Gas' <u>Panhandle and St. Clair Systems</u>. The OEB therefore requires Amalco to file a cost allocation study in 2019 for consideration in the proceeding for 2020 rates that proposes an update to the cost allocation to take into account the following projects: Panhandle Reinforcement, Dawn-Parkway expansion including Parkway West, Brantford-Kirkwall /Parkway D and the Hagar Liquefaction Plant. This should also include a proposal for addressing TransCanada's C1 Dawn to Dawn TCPL service. <u>The OEB accepts that this proposal will not be perfect</u>, but <u>is intended to address</u> the cost allocation implications of certain large projects undertaken by Union Gas that have already come into service.*

<u>Current Proposal</u>

30. As we understand it, in order to address the Board's merger case directive in the context of its current rate plan (which decouples rates and attendant revenues from costs), EGI has used its 2019 revenues for the Union rate zones as a proxy for "costs" in these rate

[26] EB-2017-0306/0307, *Decision and Order*, page 41, bottom.

zones. EGI explains that *"[t]he objective of the cost allocation process is to allocate the utility test year revenue requirement to customer rate classes"*[27]. As EGI has explained[28]:

> *Preparing the cost allocation study using a revenue requirement that is equal to the forecast of revenue under the rate setting mechanism allows for the cost allocation study results to demonstrate the impact of shift of allocated costs by rate class without the impact of a sufficiency or deficiency.*

31. In the context of a cost/revenue decoupling rate plan, EGI has used revenues for allocation. This seems a logical approach in the circumstances. While *"not… perfect"*, through this approach EGI has addressed the cost allocation implications of the Panhandle Expansion Project and has proposed a cost allocation update for this project that reflects a more equitable recovery of the Panhandle System attributable revenues from the various rate classes as directed by the Board in its decision on the merger application.

32. As we understand it, to address the current inequity EGI has proposed to separate the classification of revenues related to the applicable pipeline systems into those attributable to St. Clair System assets and those attributable to Panhandle System assets.[29] In particular, the evidence filed;

    (a) examines each major asset category on the Panhandle System and allocates revenues attributable to capital and O&M costs for each major asset between ex-franchise (C1) and in-franchise customers, and in respect of in-franchise customers allocates costs to rate classes based on design day demands on the Panhandle System; and

    (b) as the St. Clair System assets are currently used to transport NEXUS supply for Union North and Union South sales service customers and revenues attributable to these assets are recovered under Rate C1 from both sales service and direct purchase, the revenues associated with these assets are directly assigned to Rate C1.

33. The proposed approach;

    (a) is logical;

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[27] ExB/T1/S1/AppC/p7, paragraph 14.
[28] ExI.OGVG.4.
[29] ExB/T1/S1/S1/AppC/p12, paragraphs 24 *et seq.*

(b) precludes allocation of Panhandle System costs to St. Clair System demands - the flaw in the legacy methodology in light of the significant 2016 shift in relative costs of the two systems as discussed above; and

(c) as demonstrated by EGI's undisputed evidence, *"better represents the principles of cost causation by allocating the costs based on each rate class' use of the Panhandle System and St. Clair System"*.[30]

34. The result of this proposed allocation is to remove from rates T2, M16 and C1 $12.6 million dollars of revenue requirement that is being inappropriately and inequitably recovered from these customers for the Panhandle System in 2019, and reallocate that revenue requirement to those customers who are relying on the Panhandle System, including the 2017 $264.5 million reinforcement of that system (i.e. Rates M1, M2, M4, M7, T1 and, to a small extent, M5, including 676 greenhouse customers[31]).[32] The impact on EGI's 23 Rate T2 customers[33] is a reduction in rates of $4.9 million.

35. Pending a full cost of service and associated cost allocation study, IGUA supports this approach and its result.

36. IGUA has focussed its attention in this matter (and, indeed, since 2016) on the allocation of Panhandle Reinforcement Project costs, as the costs primarily impacting the T2 rate class under which IGUA's Union rate zone members take the bulk of their gas delivery services.

37. In the merger decision the Board directed EGI to consider additional significant projects put into service during Union's previous IRM rate plan period. Incorporating the allocation study impacts of those additional projects[34] into rates would provide offsetting impacts to rates M1, M2, M4, M7, T1 and, to a small extent, M5, as well as further reductions to rate T2, primarily through shifting revenue requirement to rate M12.

38. The Board might conclude that this broader reallocation better balances the interests of various customer groups, and IGUA would support that outcome as well. We note, however, the distinction between the costs associated with these projects and those

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[30] ExB/T1/S1/AppC/p15, paragraph 31.
[31] ExI.OGVG.1, page 2.
[32] ExB/T1/S1/AppC/p9, Table 2.
[33] ExI.OGVG.1, page 2.
[34] ExB/T1/S1/AppC/p9, Table 2 and with additional details at ExB/T1/AppC Working Papers, Schedule 3.

associated with the Panhandle Reinforcement Project, as addressed by EGI in its *Reply Submissions* in the merger proceeding[35] (our emphasis):

> *Notwithstanding the proposal that Amalco will file cost allocation studies, it is important to be clear that the Applicants consider existing cost allocation methodologies to be appropriate. Union's 2013 cost allocation study allocated costs in an appropriate manner and was approved by the OEB at that time. Subsequent to the 2013 cost allocation study, Union included incremental costs in rates using Board-approved methodologies. The existing methodologies appropriately allocated incremental costs with the exception of the Panhandle revenue requirement.*
>
> *The Panhandle project is unique as it involved incremental costs not considered in the 2013 cost allocation study. If Union had known about the project at the time of the 2013 cost allocation study, it would have proposed an alternative allocation methodology at that time. In the pre-filed evidence for the Price Cap Application, the Applicants stated unequivocally that Amalco will address the cost allocation of the Panhandle system and the St. Clair system in the 2019 rate application.*
>
> *The Applicants have also made clear their expectation that cost allocation for the Panhandle system and the St. Clair system can be addressed as a discrete cost element within one functional classification. …*

39. Unlike the issue of allocation of costs of the Panhandle System, the other cost allocation changes addressed by EGI in its response to the Board's merger decision direction entail what many might argue is a more fundamental re-examination of the allocation of costs of assets serving a broader, less discrete, range of customers. In contrast, as emphasized by EGI, the Panhandle Reinforcement Project was unique as it involved incremental costs not considered in the 2013 cost allocation study and which are amenable to unique functional classification.

40. Even if the Board has reservations in this case regarding the range of cost allocation changes proposed by EGI in response to the merger decision directive, rectification of the discrete inequity resulting from the legacy approach to allocating Panhandle System costs can and should be addressed in this proceeding and should not be further delayed.

41. We note that the approach to allocation of Panhandle System costs now proposed by EGI is a different approach than initially proposed by Union in its 2016 LTC application.[36] Union's initial proposal was to allocate only the incremental costs of the Panhandle

[35] EB-2017-0306/0307, Reply Argument, paragraph 229 – 233.
[36] ExI.IGUA.1, part c); ExI.SCC.9.

Reinforcement Project to rate classes based on Panhandle System design day demands. Under the 2016 proposal the allocation of pre-existing costs of the Panhandle System remained unchanged. While IGUA supports EGI's current proposal as appropriate in the circumstances, to extent that the Board remains concerned with implementing cost allocation changes during an rate plan term and considers Union's 2016 proposal to be less disruptive of current cost allocation models than EGI's current proposal, the initial approach is also equitable and thus, as an interim measure, reasonable and appropriate. ***It might be of assistance to the Board for EGI to address in its reply argument the impacts of the 2016 proposal relative to those of the current proposal in respect of the allocation of Panhandle System costs.***

42. In any event, regardless of the Board's determination in this proceeding in respect of the balance of the Dawn-Parkway system costs/revenue requirements considered, the current misallocation of Panhandle System costs should now be addressed, one way or another.

Implementation

43. EGI has proposed that the Board approve EGI's proposal for allocation of Panhandle and Dawn-Parkway facilities costs now, but defer implementation until 2024.

44. This proposal makes no sense.

45. It is not really a proposal at all. EGI has indicated its view that any cost allocation changes accepted in this proceeding could be revisited in setting rebased rates in 2024.[37]

46. In the result the only impact of approval of proposed cost allocation changes now might, in EGI's view, be to reverse the onus of challenging the "approved" cost allocation change later. Frankly, from an intervenor perspective, this is no real impact at all. We understand the practice on onus in regulatory applications, but practically speaking intervenors are always put to challenging utility proposals.

47. EGI's rationale for effectively deferring any real relief for customers already inappropriately and inequitably paying costs for assets from which they do not derive proportional benefit

[37] ExI.CME.1, part b; ExI.LPMA.2.

(and in the case of the Panhandle System costs and many Rate T2 customers no benefit at all) is that[38];

> *"… there will be additional changes at rebasing in 2024 when Enbridge Gas introduces rate harmonization, integration of the cost allocation studies for the combined utility and the pass-through of synergy cost savings into rates. The cost allocation study results, on their own, do not represent the final rate adjustment that may occur as part of a cost of service proceeding. The final rate adjustment of a cost of service proceeding would include rate design and other adjustments that may be required to manage revenue to cost ratios, maintain rate class continuity and address bill impacts.*

48. In respect of the potential for additional changes to the impacted rates at rebasing;

    (a) no such additional changes would alter the fact, apparent since 2016, that the current misallocation of Panhandle System costs has been, and continues to be, unjustified and inequitable; and

    (b) any such additional changes would also provide additional mechanisms for addressing the consequences of such additional changes *vis a vis* rates going into 2024 that are adjusted now to properly reflect costs to serve and ensure that those who benefit from the Panhandle System pay the cost of the Panhandle System (and those who do not rely in any measure on the Panhandle System do not continue to subsidize those who do).

49. In respect of *"rate design and other adjustments that may be required to manage revenue to cost ratios, maintain rate class continuity and address bill impacts"*, these are further articulated in an interrogatory response[39]. In that response EGI states that *"while allocated cost of service is the primary driver of setting rates"* (our emphasis), other considerations that impact proposed rates are;

    (a) the level of current rates and the magnitude of the proposed change;

    (b) the revenue deficiency/sufficiency for the company as a whole;

    (c) the relative rate changes of other rate classes;

    (d) the potential impact on customers;

    (e) the level of contribution to fixed cost recovery;

    (f) customer expectations with respect to rate stability and predictability; and

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[38] ExB/T1/S1/AppC/p3, paragraph 7, paragraph 11.
[39] ExI.TCPL.1, part d).

(g) equivalency of comparable service options.

50. Just a few minutes of consideration of EGI's list of rate design and other adjustments indicates that they are either irrelevant or can be addressed now. In particular;

(a) ***the level of current rates*** for those customers, including in particular Rate T2 customers, is inflated relative to the costs to serve them, and the magnitude of the proposed change is no greater than the magnitude that they have shouldered, in the opposite direction, since the Panhandle Reinforcement Project costs were first passed through to them in 2018.

(b) There would be no ***revenue sufficiency/deficiency for the company as a whole***. EGI's evidence shifts costs between rate classes, but nets out to 0 impact on EGI revenue. EGI has repeatedly stated its expectation that any rate changes arising from this proceeding would be revenue neutral to EGI.

(c) The ***relative rate changes of other rate classes*** is clearly addressed in EGI's evidence already;

(d) The ***potential impact on customers*** is essentially the same point as points (a) and (c) above.

(e) In respect of ***the level of contribution to fixed cost recovery***, despite ample opportunity in pre-filed evidence and IRRs EGI has not indicated any issue on this point beyond identifying it in the interrogatory response.

(f) ***Customer expectations in respect of rate stability***, while embraced by those interests resisting allocation of Panhandle System costs to those who rely on the Panhandle System, did not seem to trouble these parties when these costs were first added to rates for T2 and other customers in 2018. Rate T2 customers and other negatively impacted customers also have expectations regarding rate stability, though in most cases those are likely secondary to concerns about rate fairness.

(g) We have no idea what ***"equivalency of comparable service options"*** has to do with the fairer and more appropriate allocation of Panhandle System costs or the Dawn Parkway Costs at issue in this application.

51. In any event, to the extent that any of these *"rate design and other adjustments"* are in fact (rather than in theory) a concern in respect of the particular allocations in issue in this matter, they could have, and should have, been particularly and clearly addressed by EGI. No such issues have been articulated. There is absolutely no evidence that any of these present real or material concerns.

52. EGI was directed to review these allocations and to make a proposal. No particulars of any concerns with adjusting rates have been offered in the pre-filed evidence or the

interrogatory responses. If EGI were legitimately concerned about any of these factors one would think those concerns would have been articulated with some specificity and quantification in EGI's evidence.

53. The Board in the merger decision was very clear in its expectations[40] (our emphasis);

> *The Board is concerned about the cost allocation issues raised by parties for Union Gas' Panhandle and St. Clair Systems. The OEB therefore requires Amalco to file a cost allocation study in 2019 for consideration in the proceeding for 2020 rates that proposes an update to the cost allocation… The OEB accepts that this proposal will not be perfect, but is intended to address the cost allocation implications of certain large projects...*

54. Proposing a change to the methodology for allocating Panhandle System costs but deferring implementation of any change to rates for another 3.5 years does not address cost allocation implications as intended by the Hearing Panel in the merger decision. Proposing changes without implementation of those changes does not address anything.

55. In its reply argument in the Panhandle Reinforcement Project LTC in 2016, under the heading *"Merit of proposed interim allocation changes"*[41], Union justified its proposed interim allocation of Panhandle Reinforcement Project costs to Panhandle System users based on their design day demands on that system on the basis that such allocation *"would be in effect only for a 14-month period"*[42] and was *"designed to ensure that the allocation of Project costs and the resulting rate impacts reflect the principle of cost causality"*[43].

56. Despite the position that Union then took on passing through the Panhandle Reinforcement Project costs to rates, the 2016 LTC Hearing Panel was nonetheless persuaded that given only 14-months until full rebasing it was preferable to wait. While that may have been a reasonable approach for a 14 month period, it is, with respect, not just and reasonable for a further 3 years, on top of the 3 years (including 2020) during which the initially intended 14 month situation has already been in place.

[40] EB-2017-0306/0307, *Decision and Order*, page 41, bottom.
[41] EB-2017-0306/0307, *Reply Argument*, page 49.
[42] EB-2017-0306/0307, *Reply Argument*, paragraph 134.
[43] EB-2017-0306/0307, *Reply Argument*, paragraphs 138.

57. Rate changes introduced now (in 2021) will be in effect for a 3 year period, and will *"ensure that the allocation of Project costs and the resulting rate impacts reflect the principle of cost causality"*.

58. The rate review and harmonization contemplated for the 2024 test year can, and should, take any interim cost allocation and attendant rate changes into account, and additional changes suggested by a broader cost allocation review will provide EGI and the Board with ample tools to *"manage revenue to cost ratios, maintain rate class continuity and address bill impacts"* should such be determined at the time based on clear and quantified evidence to be appropriate. Any actual *"additional rate impacts as a result of synergy cost savings of the combined utility and proposed changes to cost allocation and rate design in the 2024 rebasing proceeding"* can then be assessed and, as required, addressed on a more equitable base rate which better reflects cost causality.

Conclusion

59. Rates have already changed to provide EGI with recovery of the costs of the Panhandle Reinforcement Project.

60. In 2019 $12.6 million is being disproportionately and inequitably recovered from customers as a result of a reinforcement undertaken to serve other customers. IGUA's members served primarily on the St. Clair System have been paying hundreds of thousands of dollars a year in their rates since 2018 on account of costs of the Panhandle System which they don't use, while customers for whom the $264.5 million Panhandle System Expansion was undertaken have been subsidized.

61. Those who have benefitted from the previous change in rates to provide EGI with recovery of the costs of the Panhandle Reinforcement Project, because these costs are being paid by those who don't benefit, argue that no further change – even if demonstrably and unarguably proportionate and appropriate – should be made. That is not fair.

62. It is time to put these costs back where they belong.

63. Six years of overpayment and cross-subsidy to the tune of tens of millions of dollars from St. Clair System customers to Panhandle System customers is neither just nor reasonable.

64. In any event of future modification of the allocation of other EGI costs, correction of the current misallocation of Panhandle System costs is, and will remain, completely appropriate. The fact that there may be other changes in the other direction 3 years from now does not alter the appropriateness of these current changes.

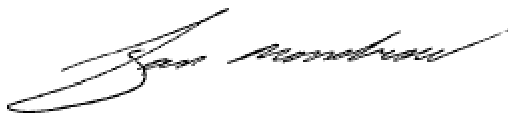
65. It is time to correct the previous misallocation of Panhandle System costs, and the Hearing Panel should so find.

66. To find otherwise would result in the continuation of rates for another 3 years that are demonstrably unjust and unreasonable. There is no legitimate dispute on this point.

67. Those arguing against implementation of the results of the cost allocation work directed by the Board in the merger decision are rearguing the position that the Board already rejected in that decision. The Board should reject these arguments again.

68. EGI has indicated that it can correct the previous misallocation in 2021 rates[44], and it should be instructed to do so.

ALL OF WHICH IS RESPECTFULLY SUBMITTED by:



GOWLING WLG (CANADA) LLP, per:
Ian A. Mondrow
Counsel to IGUA

April 10, 2020

[44] ExI.IGUA.6.

Filed: 2016-11-28
EB-2016-0186
Exhibit J1.2
Page 1 of 1

UNION GAS LIMITED

Undertaking Response
To Mr. Aiken

FOR M4 LARGE, TO PROVIDE A SCHEDULE WHERE THERE IS NO CHANGE IN EITHER DEPRECIATION OR THE COST ALLOCATION

Please see Attachment 1 for the delivery bill impacts of typical small and large in-franchise customers.

The bill impact for a large Rate M4 customer using Board-approved depreciation rates and cost allocation methodology is approximately $15,991.

Please see Attachment 2 for a detailed summary of Union's cost allocation proposal, per Board Panel Chair Duff's request at Day 1 of the transcripts page 171, lines 9-15, following questions on cost allocation beginning on page 169 line 15 through page 171.

Filed: 2016-11-28
EB-2016-0186
Exhibit J1.2
Attachment 1

UNION GAS LIMITED
Delivery Charges and Impacts for Typical Small and Large Customers
Based on Board-Approved Cost Allocation Updated for the Project and
Board-Approved Depreciation Rates of Approximately 50 Years

Line No.	Particulars	Delivery Charges EB-2016-0040 Approved 01-Apr-16 (1) ($)	Delivery Charges EB-2016-0186 Proposed 01-Jan-18 ($)	Delivery Charge Impact ($)	Delivery Charge Impact (%)
		(a)	(b)	(c) = (b - a)	(d) = (c / a)
	Union North				
1	Rate 01 - Small	435	433	(2.03)	-0.5%
2	Rate 10 - Small	4,232	4,205	(27.23)	-0.6%
3	Rate 10 - Large	13,579	13,504	(74.43)	-0.5%
4	Rate 20 - Small	73,272	72,659	(612.86)	-0.8%
5	Rate 20 - Large	281,495	279,512	(1,983.10)	-0.7%
6	Rate 25 - Average	62,814	62,409	(405.28)	-0.6%
7	Rate 100 - Small	260,184	258,790	(1,394.52)	-0.5%
8	Rate 100 - Large	2,106,720	2,096,428	(10,292.52)	-0.5%
	Union South				
9	Rate M1 - Small	346	347	1.93	0.6%
10	Rate M2 - Small	3,297	3,363	65.87	2.0%
11	Rate M2 - Large	10,642	10,916	274.24	2.6%
12	Rate M4 - Small	37,374	39,333	1,959.03	5.2%
13	Rate M4 - Large	277,378	293,369	15,990.80	5.8%
14	Rate M5 - Small	30,596	30,440	(155.83)	-0.5%
15	Rate M5 - Large	169,794	169,031	(763.06)	-0.4%
16	Rate M7 - Small	656,550	671,835	15,285.60	2.3%
17	Rate M7 - Large	2,513,626	2,580,327	66,700.80	2.7%
18	Rate M9 - Large	384,526	383,685	(841.18)	-0.2%
19	Rate M10 - Average	5,570	5,490	(79.29)	-1.4%
20	Rate T1 - Small	132,068	147,962	15,893.51	12.0%
21	Rate T1 - Average	201,822	228,048	26,226.39	13.0%
22	Rate T1 - Large	445,903	508,291	62,387.84	14.0%
23	Rate T2 - Small	511,030	637,897	126,867.35	24.8%
24	Rate T2 - Average	1,186,197	1,507,146	320,948.57	27.1%
25	Rate T2 - Large	1,936,196	2,472,295	536,099.15	27.7%
26	Rate T3 - Large	3,552,739	3,555,805	3,066.36	0.1%

Notes:
(1) Reflects Board-approved rates per Appendix A in Union's April 2016 QRAM filing (EB-2016-0040).

Panhandle Reinforcement Project – Cost Allocation Summary

The current Board-approved cost allocation methodology combines the costs of the Panhandle System and the St. Clair System. The Panhandle System consists of two transmission pipelines between Dawn and the Ojibway Valve Site, associated compressor and transmission stations and measuring and regulating equipment. The St. Clair System includes the St. Clair transmission line and Union's contracted transportation capacity on the St. Clair Pipelines L.P. system, including the St. Clair River Crossing and Bluewater Pipeline. These two systems have been combined for cost allocation since Rate C1 was first included in the cost allocation study in 1999. The primary reason for combining the two systems was because both systems provide transportation service between the river crossings west of Dawn and the Dawn Compressor Station.

The Board-approved cost allocation first allocates costs to ex-franchise Rate C1 and Rate M16 rate classes based on the firm contracted demands on both systems and the average unit cost of the combined system. The next step in the cost allocation is to allocate the remaining costs to in-franchise rate classes based on the Design Day demands of the combined system.

However, the use of the combined system for allocating the Project costs is no longer appropriate because it is no longer representative of cost causation principles. The addition of the Project's net revenue requirement of $25.6 million, which relates only to the Panhandle System, is a significant increase relative to the 2013 Board-approved revenue requirement of the combined system of $7.1 million. The Board-approved cost allocation, when applied to the cost of the Project, is no longer representative of cost causation principles because of the significantly larger cost per unit of demand for the Project (relative to existing) which relates only to the Panhandle System.

The result of using the Board-approved cost allocation for the Project allocates significant costs to ex-franchise Rate C1 and Rate M16 that would require a rate increase in excess of 300% in order to recover the costs. Using the Board-approved cost allocation also disproportionately allocates significant costs to in-franchise Rate T2. The St. Clair System has a large Rate T2 customer base and using the Design Day demands of the combined system to allocate costs to in-franchise rate classes results in an allocation to Rate T2 that is not representative of their use of the Panhandle System.

The Board-approved cost allocation was reasonable when the Panhandle System and St. Clair System had similar costs per unit of demand. With the addition of the Project costs that related only to the Panhandle System and no change to the cost of the St. Clair System, the use of the combined system no longer reflects the costs to serve the customers on each respective transmission system.

Union has therefore proposed an interim cost allocation methodology for the Panhandle Reinforcement Project ("the Project") that is representative of cost causality by allocating costs based on the Design Day demands of the Panhandle System only.

Union's proposal for the cost allocation of the Project is different than the current Board-approved cost allocation in two ways:

- Allocation of the Project costs in proportion to the 2013 Board-approved in-franchise Panhandle System Design Day demands updated for the Project. Union's proposed allocation does not consider the Design Day demands of the St. Clair System because the incremental costs created by the Project relate only to the Panhandle System and does not allocate costs to ex-franchise rate classes because they do not utilize Design Day capacity of the Panhandle System; and
- No update to ex-franchise Rate C1 and Rate M16 demand rates for the Project.

Union's cost allocation proposal for the Project is more representative of cost causation principles and addresses the following concerns with the current Board-approved cost allocation.

Loss of Ex-franchise Market

The Board-approved cost allocation allocates costs to ex-franchise Rate C1 and Rate M16 rate classes based on the firm contracted ex-franchise demands and the average unit cost of the combined system. The addition of the Project costs to the combined system results in a significant increase in the average unit cost. Basing the allocation of costs to ex-franchise rate classes in this manner would result in a significant rate increase in excess of 300% in order for Union to recover the allocated costs.

The current use of an average unit cost of the combined system to allocate costs to ex-franchise rate classes recognizes a contribution to the costs in-franchise customers would otherwise bear for the Panhandle System. In the past, the use of an average unit cost of the combined system has resulted in a demand rate that has attracted ex-franchise interest in the transportation service. If the rate is derived from the average unit cost and is no longer attractive to ex-franchise customers, it could jeopardize the demand for the ex-franchise service.

Rate C1 ex-franchise customers utilize the Panhandle System for transportation service from Ojibway to Dawn. Customers who utilize the Rate C1 transportation service are typically marketers, producers or other pipeline companies that want to move gas to Dawn. These customers largely utilize the Rate C1 service based on market opportunities at Dawn relative to the cost to purchase or produce the gas upstream of Dawn and use the Rate C1 service to get the gas to Dawn. A rate increase of this magnitude would likely reduce or eliminate the demand for the Rate C1 transportation service from Ojibway to Dawn because the market opportunities would be reduced with such a high transportation cost.

Maintaining the Rate C1 transportation service benefits in-franchise customers. At rebasing, any costs allocated to ex-franchise rate classes based on the demand forecast for the service reduces the costs allocated to in-franchise rate classes. In addition, all forecasted revenue in excess of the allocated costs also reduces in-franchise rates.

The Panhandle System is designed to meet in-franchise demands on Design Day and the Project is required to meet the increase in in-franchise Design Day demands. Ex-franchise has no impact on the need for the Project and do not use any Design Day capacity. The Rate C1 and Rate M16 customers that use the Panhandle System actually flow counterflow to the direction of the Design Day demand (i.e. ex-franchise activity flows from Ojibway to Dawn, Panhandle Design Day demands flow Dawn to Ojibway). Although Rate C1 is not obligated on Design Day, any ex-franchise counterflow activity on Design Day

actually benefits Panhandle System as the gas arriving at Ojibway reduces the gas that needs to come from Dawn.

Union's proposal to not allocate any Project costs to the ex-franchise rate classes and to not update the rate recognizes that the facilities are designed for in-franchise Design Day and the loss of the ex-franchise firm demands based on a significant increase in the rate would increase the in-franchise burden of costs upon rebasing.

Allocation to In-franchise Rate Classes

The Board-approved cost allocation allocates costs not allocated to ex-franchise rate classes to in-franchise rate classes based on the combined Design Day demands of both the Panhandle System and St. Clair System. The Panhandle System and St. Clair System have significantly different proportions of Design Day demands by rate class as compared below:

Line No.	Rate Class	Design Day Demands: St. Clair System (1) (%)	Design Day Demands: Panhandle System (2) (%)	Project Cost Allocation Factors: Board-Approved Allocation (3) (%)	Project Cost Allocation Factors: Proposed Allocation (3) (%)
		(a)	(b)	(c)	(d)
1	Rate M1	7%	40%	21%	40%
2	Rate M2	2%	14%	7%	14%
3	Rate M4	0%	14%	7%	14%
4	Rate M5	-	0%	0%	0%
5	Rate M7	-	4%	2%	4%
6	Rate T1	9%	5%	6%	5%
7	Rate T2	82%	23%	42%	23%
8	Total In-franchise	100%	100%	85%	100%
9	Rate C1	-	-	13%	-
10	Rate M16	-	-	3%	-
11	Total Ex-franchise	0%	0%	15%	0%
12	Total	100%	100%	100%	100%

Notes:
(1) Percentages by rate class derived from Exhibit A, Tab 8, Schedule 2, line 6.
(2) Exhibit A, Tab 8, Table 8-1.
(3) Exhibit A, Tab 8, Table 8-3.

The allocation of costs to Rate T2 is much higher using the combined system allocator than the proportion of Rate T2 Design Day demands of the Panhandle System only. The Design Day demands of the St. Clair System are not driving the Project costs and it would not be fair to allocate to Rate T2 a proportion of the Project costs based on their proportion of demands of the combined system which includes the St. Clair System. As well, the proportionate use of the Panhandle System by Rate M1 is much greater than the combined system allocator. The use of the Panhandle System Design Day demands only to allocate the Project's costs more appropriately reflects cost causation principles by allocating the costs to rate classes that use the Panhandle System and are driving the need for the Project. The combined allocation was reasonable when the two systems had similar costs per unit of demand. With the addition of the revenue

requirement of the Project to the existing revenue requirement and incremental Panhandle System Design Day demands, the combined allocation is no longer reasonable.
Union's proposal to allocate the Project costs to in-franchise rate classes using Panhandle System Design Day demands updated for the Design Day demands of the Project recognizes that an allocation using the combined system is not representative of the use of the Panhandle System only. The proposed allocation reflects each rate classes' use of the Panhandle System and appropriately reflects cost causation and addresses the concerns with the current Board-approved methodology.

Union will review the cost allocation and rate design for all Panhandle System and St. Clair System costs as part of its 2019 rebasing. During the interim period, Union has proposed a cost allocation that is representative of cost causality and provides a transition to 2019 which avoids potential rate volatility upon Union's rebasing if the costs change significantly when Union proposes a cost allocation that represents cost causality for all Panhandle System costs.

EB-2017-0087

ONTARIO ENERGY BOARD

UNION GAS LIMITED

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

EVIDENCE

of

INDUSTRIAL GAS USERS ASSOCIATION (IGUA)

Introduction

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

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

    (a) ArcelorMittal Dofasco (Dofasco)

    (b) ARLANXEO Canada Inc. (ARLANXEO)

    (c) INEOS Styrolution Canada Limited (Styrolution)

    (d) Suncor Energy Inc. (Suncor)

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

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

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

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

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

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

ARLANXEO

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

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

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

9. ARLANXEO employs about 400 people at the facility.

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

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

Dofasco

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

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

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

INEOS Styrolution

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

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

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

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

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

Suncor

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

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

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

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

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

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

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

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

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

Panhandle Expansion Cost Impacts

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

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

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

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

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

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

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

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

Conclusion

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

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

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

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

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