

**Ontario Energy
Board**

**Commission de l'Énergie
de l'Ontario**



EB-2005-0520

IN THE MATTER OF AN APPLICATION BY

UNION GAS LIMITED

FOR RATES FOR FISCAL 2007

DECISION WITH REASONS

June 29, 2006

EXECUTIVE SUMMARY

This Decision deals with Union Gas Limited's (Union) application for a Board Order approving rates for its 2007 fiscal year commencing January 1, 2007. The proceeding included a settlement process whereby Union and the other parties reached a settlement on a majority of the issues. The Settlement Agreement is included as an appendix to this Decision. The Board approved the settlement and the remaining unsettled issues were heard by the Board in an oral hearing.

The Board will issue a rate order reflecting this decision prior to the start of the new rate year, which takes effect on January 1, 2007. However, there are several matters currently before other panels of the Board that may affect the final 2007 rates prior to their implementation. Among these are the Board's Demand-Side Management Generic Proceeding and the Natural Gas-Electricity Interface review. Both of these proceedings are currently active with Decisions yet to be rendered. The Board expects that any matters arising from other proceedings having rate consequences for Union's 2007 rate year will be captured in the implementing rate order.

The unsettled issues addressed in this Decision include:

- Gas Cost Risk Management Program (Chapter 2)
- 24-Month Fixed Cost Purchase Plan (Chapter 2)
- Proposal to Split the M2 rate class into two new rate classes (Chapter 3)
- Proposal to increase the monthly charge for rates M2 and 01 to \$16 (Chapter 4)

With respect to Union's Risk Management Program, the Board has allowed Union to continue to operate its gas supply Risk Management Program on the basis that it is effective in reducing price volatility and the program is modest in terms of its costs of operation.

With respect to Union's request for pre-approval of its proposal for a 24-month fixed cost purchase plan, the Board will not pre-approve this arrangement. The Board said that the proposal already falls within the ambit of Union's Risk Management Program.

With respect to Union's proposal to split the M2 rate class on the basis of high and low volume customer groups, the Board has granted approval to proceed with the split as proposed.

With respect to Union's proposal to increase the fixed monthly charge for rates M2 and 01 from \$14 to \$16, the Board approves of the proposal.

Note: This Executive Summary does not form part of the Decision and is not to be relied upon for the purpose of applying or interpreting the Decision.

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APPENDIX “A”

1. Settlement Proposal

EB-2005-0520

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

AND IN THE MATTER OF an Application by Union Gas
Limited for an Order or Orders approving or fixing just and
reasonable rates and other charges for the sale, distribution,
transmission and storage of gas commencing January 1, 2007.

BEFORE: Pamela Nowina
Vice Chair, Presiding Member

Paul Sommerville
Member

Ken Quesnelle
Member

DECISION WITH REASONS

June 29, 2006

1. INTRODUCTION

1.1 THE APPLICATION

1.1.1 Union Gas Limited (“Union” or the “Company”) filed an Application dated December 15, 2005 with the Ontario Energy Board under section 36 of the *Ontario Energy Board Act, S.O. 1998, c.15, Schedule B*, for an Order or Orders approving or fixing just and reasonable rates and other charges for the sale, distribution, transmission and storage of gas commencing January 1, 2007. The Board assigned file number EB-2005-0520 to the Application.

1.2 THE PROCEEDING

1.2.1 Upon receiving the last of the pre-filed evidence, the Board issued its Notice of Application on February 3, 2006. The Notice was published and served in accordance with the Board’s direction.

1.2.2 On February 24, 2006, the Board issued its Procedural Order No. 1, establishing the procedural schedule for all events up to and including the oral hearing, which was originally scheduled to commence on May 18, 2006. The oral hearing took place over the period May 23 to May 30, 2006.

1.2.3 Throughout the course of the proceeding, the Board issued five (5) Procedural Orders. All procedural documents, decisions and orders of the Board pursuant to this case are available on the Board’s website.

1.3 THE SETTLEMENT AGREEMENT

- 1.3.1 Following the ten-day Settlement Conference, a Settlement Agreement was filed with the Board on May 15, 2006. The Settlement Agreement is attached to this Decision as Appendix “A”.
- 1.3.2 The Settlement Agreement proposed a settlement of all but four (4) issues on the Issues List. All parties participating in the Settlement Conference agreed to a complete settlement on the other 47 issues. After hearing a presentation of the Settlement Agreement at the start of the hearing on May 23, 2006, the Board accepted the Settlement Agreement.
- 1.3.3 One intervenor, residential ratepayer Mr. Crockford, indicated that he did not support the Settlement Agreement, and indicated that he would be filing an appeal relating to a previous Board ruling regarding Union’s answers to his interrogatories. Mr. Crockford did not make any further specific submissions regarding the Settlement Agreement.
- 1.3.4 The issues that were not settled include Risk Management (Issue 3.16), the 24-Month Fixed Cost Purchase Plan (Issue 3.15), the M2 Rate Class Split (Issue 6.2) and the Fixed Monthly Charge Increase (Issue 6.3). These issues were heard by the Board in the oral hearing.
- 1.3.5 The Board is very appreciative of the efforts of all the parties to come to a comprehensive settlement of this scale. The settlement meant that the oral hearing was able to proceed expeditiously and in fact, the Board was able to conclude the hearing, including oral argument, after only five hearing days.
- 1.3.6 The Board would also like to thank Mr. Ken Rosenberg who was retained by the Board to facilitate the settlement process.
- 1.3.7 All of the financial issues were settled. Union’s original filing showed a 2007 revenue deficiency of \$94.8 million. The approved Settlement Agreement showed

a significant reduction of this deficiency to the agreed-upon amount of \$24.7 million.

1.4 THE FINAL RATE ORDER

1.4.1 This Decision will not take effect in Union’s rates until January 1, 2007 because the matters under review in this proceeding concern Union’s 2007 fiscal year. The Board expects that it will issue a Rate Order prior to the start of the 2007 rate year.

1.4.2 The Board notes that there are several other matters currently before other panels of this Board that will, or may, affect the final 2007 rates prior to their implementation. Among these are the Board’s Demand-Side Management Generic Proceeding and the Natural Gas-Electricity Interface review. Both of these proceedings are currently active with Decisions yet to be rendered. The Board expects that any matters arising from such other proceedings having rate consequences for Union’s 2007 rate year, will be captured in the forthcoming Rate Order. In addition, the Board notes that January 1, 2007 is the expected timing of the gas commodity price adjustment through the regular quarterly QRAM gas price adjustment process. The rate change effects of the QRAM would also likely be captured in the Rate Order.

1.5 PARTICIPANTS AND THEIR REPRESENTATIVES

1.5.1 Below is a list of participants and their representatives that were active either at the oral hearing or at another stage of the proceeding.

- | | |
|-------------------------|--|
| Board Counsel and Staff | Michael Millar
Colin Schuch
Rudra Mukherji |
| Union Gas Limited | Michael Penny
Crawford Smith |

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	Mike Packer Bryan Goulden
Energy Probe	David MacIntosh Tom Adams
TransCanada PipeLines (“TCPL”)	Alan Ross Murray Ross
Industrial Gas Users Association (“IGUA”)	Peter Thompson Vince DeRose
Consumers Council of Canada (“the CCC”)	Robert Warren Julie Girvan
London Property Management Association and the Wholesale Gas Service Purchasers Group (“LPMA”, “WGSPG”)	Randy Aiken
City of Kitchener (“Kitchener”)	Alick Ryder Jim Gruenbauer
Superior Energy Management (“SEM”), TransAlta Cogeneration L.P. and TransAlta Energy Corp. (collectively “TransAlta”), and Coral Energy Canada Inc. (“Coral”)	Elisabeth DeMarco
Ontario Energy Savings L.P. (“OESLP”)	Nola Ruzycki
Canadian Manufacturers and Exporters (“CME”)	Brian Dingwall

Enbridge Gas Distribution Inc.	Richard Lanni Bob Rowe
School Energy Coalition (“SEC”)	John DeVellis
Ontario Association of Physical Plant Administrators (“OAPPA”)	Valerie Young
Low-Income Energy Network (“LIEN”)	Paul Manning Julie Abouchar Malcolm Jackson
Vulnerable Energy Consumers Coalition (“VECC”)	Michael Buonaguro James Wightman
Federation of Northern Ontario Municipalities (“FONOM”) and the Cities of Timmins and Greater Sudbury	Peter Scully
Individual Ratepayer Intervenor	Marc Crockford

2. RISK MANAGEMENT

2.1 BACKGROUND

- 2.1.1 At Issues Day on March 8, 2006, Energy Probe sought to have an examination of Union's Risk Management Program added to the Issues List. The Board agreed to its inclusion on the basis that there has been an evolution in the understanding of the usefulness of such programs over the past several years.
- 2.1.2 In this case, the Issues List had two issues relevant to Risk Management, Issue 3.15 and Issue 3.16. Both were unsettled issues heard by the Board in the oral hearing. Issue 3.15 concerns the appropriateness of Union's proposed 24-month fixed cost purchase plan and Issue 3.16 concerns the appropriateness of the Risk Management Program itself. As the two issues are related to gas supply risk management, the Board will deal with both in this chapter of its Decision.
- 2.1.3 The risk management activities of the two principal gas distribution companies in Ontario have been the subject of considerable regulatory comment in recent years. In 2004, the Union program was thoroughly reviewed by a panel of the Board in connection with the 2004 rates application. A review of Enbridge's risk management activity was conducted in its 2006 rates case.
- 2.1.4 These reviews have been occasioned by a sharpened interest on the part of several intervenors who regard these programs as having unsupportable negative impacts on the competitive environment for gas marketing in Ontario, and as impediments to conservation. This challenge to the risk management activity has been advanced primarily by Energy Probe, Superior Energy and OESC.
- 2.1.5 It is the view of these intervenors that to the extent that the risk management programs send "inaccurate" pricing signals to gas consumers, they serve to create

an artificial and anti-competitive price offering for the system suppliers of natural gas, Union and Enbridge. They also contend that the smoothed price that is the product of the risk management activity sends an inappropriate incentive signal to consumers of natural gas to not reduce consumption.

- 2.1.6 In the course of the proceeding a further rationale emerged for the discontinuance of Union's Risk Management program. This concerns its simple efficacy. The argument advanced by IGUA focused on the evidence that showed that the program had a minimal net effect on the volatility of the natural gas price passed on to consumers. In IGUA's view, such apparently minimal results do not justify even the modest O&M costs attributable to the program.
- 2.1.7 The matter of Union's Risk Management program was the subject of review at Union's last main rates proceeding for the setting of 2004 rates, RP-2003-0063. In its Decision the Board found, at page 17, that "Union's risk management program does provide value to ratepayers and is, therefore, appropriate and that the specific changes Union is proposing to implement in the 2004 rate year are reasonable and provide an opportunity to enhance the value of the program."
- 2.1.8 Union did not propose any changes to its Risk Management Policy in the current rate case on the basis that it was reviewed and approved by the Board in its most recent case. Nevertheless, Union's "System Gas – Gas Procurement and Risk Management Policy and Procedures" document was included in the package of pre-filed evidence. The policy lists five objectives:
- Provide reasonable value through a diversified portfolio
 - Reduce price volatility
 - Minimize exposure to counterparty credit risk
 - Union will ensure in all gas supply transactions, fairness to customers and all counterparties

- Corporate Governance and Controls

2.1.9 Union said it has been involved in the risk management of its gas supply portfolio since the 1990's to limit the effect of volatile natural gas commodity prices on the cost of gas. Its risk management program utilizes a number of tools including fixed price gas or financial swaps, and financial hedges such as collars and the buying and selling of call and put options.

2.1.10 Although Union maintained that there was no real rationale for a review of risk management at this time because the need for risk management activity is just as valid now as it was in the previous rate case, it pointed to the fact that its evidence actually addresses the concerns raised by the Board in the recent (February 2006) Enbridge rates decision EB-2005-0001. Union said that risk management has provided customer benefits in terms of reduced volatility in the magnitude of the rate riders necessary to clear the purchased gas variance account.

2.1.11 Energy Probe, as one of the active intervenors opposed to Union's risk management program, offered the evidence of Mr. Tom Adams, Executive Director of Energy Probe Research Foundation. Mr. Adams' evidence sought the following relief from the Board.

- The Board should reverse its support for system gas price smoothing.
- The Board should turn down Union's proposed 24-month fixed cost purchase plan.
- The Board should order the discontinuation of commodity risk management.

2.1.12 Intervenors were divided on the issues and in their approach. Generally, intervenors representing consumer groups favoured continued price smoothing while intervenors representing marketers did not.

2.1.13 The questions that were raised during the examination of risk management in this proceeding included:

- Does the risk management program offer benefits for customers in terms of gas price volatility reduction?
- Are the costs associated with managing the risk management activity reasonable in the context of any benefits provided?
- Is the program redundant in light of other price “smoothing” tools available to the system gas customer to smooth the impact of bill fluctuations? These tools would include the QRAM, fixed-price marketer offerings, and the utility’s equal billing plan.
- Does risk management have an impact on the competitive gas marketplace?
- Does risk management act as a disincentive to energy conservation?

2.2 BOARD FINDINGS

2.2.1 It is fair to say that the Board has expressed a continued interest in considering the effect of Risk Management activities on the Ontario market.

2.2.2 In the previous Union rates case, EB-2003-0063, the Board endorsed Union’s Risk Management program. In that case, the Board had the benefit of a thorough description of the program and its goals through the expert testimony of Risk Management Incorporated (RMI). RMI’s review was the result of a previous Board directive, which compelled Union to retain an expert to assess its then existing plan. The resulting RMI report endorsed the former plan but recommended a slate of changes to improve its effectiveness and governance. Union implemented almost all of those changes, and it is that amended program which the Board endorsed in EB-2003-0063.

- 2.2.3 While that endorsement was unequivocal, the Board acknowledged in its decision that the intervenors opposed to the risk management activity had arguable concerns which might be better addressed in a broader policy forum. The Board also acknowledged that intervenors may want to advance changes to the program in subsequent rate cases to address or mitigate the concerns they had with the plan, per se.
- 2.2.4 In the recent Enbridge rates case (EB-2005-0001) the Board endorsed that company's risk management activity, but directed it to provide evidence in its next rate case directed to the effect the risk management program has on the volatility in gas prices experienced by its customers, given the additional smoothing mechanisms, to wit, the Quarterly Rate Adjustment Mechanism (QRAM), and the coincident clearing of the Purchased Gas Variance deferral Account (PGVA).
- 2.2.5 In response to the Board's directive to Enbridge on EB-2005-0001 in February of this year, Union prepared its own evidence directed to the effect of its program on the volatility of gas prices experienced by its customers.

The Competition Issue

- 2.2.6 One of the Board's statutory objectives is to promote competition in the provision of natural gas in the Ontario market. A key complaint of the intervenors challenging the Risk Management program is that the smoothing effect that the program has on the volatility of natural gas prices passed on to consumers inherently inhibits or impairs competition. Natural gas marketers assert that the products that they are able to offer the public are less attractive than they otherwise would be because of the smoothing effect. They would prefer to see an environment wherein the consumer on system gas supply experienced the full ebb and flow of the naturally, and perhaps increasingly, volatile gas marketplace. In such an environment, the marketers' fixed price contracts would provide attractive certainty and stability to consumers.

- 2.2.7 The Board has two concerns with that position.
- 2.2.8 First, the Board has determined that the reduction of volatility is a worthwhile measure of consumer protection, which is also one of the Board's statutory objectives. The Board has implemented the QRAM process because of the increased need to implement gas price changes regularly, and with more frequency, to better reflect marketplace conditions. The QRAM has the effect of smoothing prices and bills. The creation of and disposition of the PGVA, a key element of the QRAM, has a like effect. It captures the difference between the forecast cost of gas supply and the actual cost, and is disposed of coincident with the QRAM adjustment each quarter. As clearly expressed in the Enbridge decision referred to above, the Board has a firm and current commitment to natural gas price, and ultimately, bill smoothing.
- 2.2.9 Second, the Risk Management program is designed to reduce volatility, not the ultimate price of natural gas passed on to consumers. System gas customers will always have to pay market prices, sooner or later. Marketers have a legitimate concern if system gas customers paid a price that was subsidized through regulated rates. This is not the case. System gas customers always have to pay market prices, sooner or later.
- 2.2.10 It is not reasonable for marketers to expect the Board, charged as it is with a consumer protection mandate, to expose system gas customers to avoidable volatility, purchased at modest cost, and where the market price of gas will be paid within a reasonable horizon. That is the case in Ontario today.
- 2.2.11 It is also noteworthy that no offeror, system gas supplier or marketer, is in a position to offer a real time experience of the spot price to consumers. It is technically unachievable, and in the case of marketers, precluded by regulation.

The Conservation Effect

- 2.2.12 The intervenors challenging the program suggest that the smoothing effect of the risk management activity distracts consumers from making conservation

decisions. The Board rejects this suggestion, largely for the same reasons underlying our rejection of the claim that risk management harms competition.

2.2.13 The key factor in any conservation scheme is the price of the commodity to be conserved. Risk management does not protect consumers from the price of natural gas on the market. It merely protects consumers from the extremes of the price peaks and valleys of the gas marketplace. All consumers, including those enrolled in the equal billing program, are subject to the day of reckoning. High prices will find their way to the consumer, sooner or later, and in the absence of an immediate time-of-use price signal, which is not currently achievable with this commodity, conservation decisions will not, and cannot, be driven by real time price experience. There is no evidence to suggest that conservation decisions are impacted where the price charged for the commodity is an abstraction, one month, five months, or one year removed from the time-of-use.

The Efficacy Argument

2.2.14 IGUA asserts that the simple lack of effectiveness of the program argues for its discontinuance. It is to be noted that this argument is somewhat inconsistent with that advanced by Energy Probe and the gas marketers. They asserted that the program should be discontinued because it had a material effect on competition and conservation. IGUA argues that the program is ineffectual. This line of argument invites the Board to consider the appropriate balance between the costs of the program, and its effectiveness.

2.2.15 As noted, as part of its decision in EB-2005-0001, the Board directed Enbridge to provide evidence in its next rates case which showed the effectiveness of its risk management program on the volatility experienced by consumers, not the Company itself. Such evidence should isolate the effect of the Enbridge risk management program from other smoothing mechanisms, notably the QRAM.

- 2.2.16 Union prepared evidence which was intended to address the Board's interest in the specific consumer effect of risk management. To this end, it analyzed the effect of risk management activity on the PGVA.
- 2.2.17 To be sure, the effect is modest. Over the period from January 2003 to January 2006, Union was able to demonstrate a 16% reduction in volatility as it related to the PGVA, which resulted in a reduction in the consumer's experience in terms of overall bill impact of less than 1%. While this result is modest, the Board notes that over that same period, risk management activity resulted in a reduction in the range of PGVA rate riders by about 30%. That is to say that the range of adjustments required for disposition of the PGVA was reduced from 6.0 to 4.2 cents per cubic meter. It is noteworthy that the reduction in volatility is best measured on a quarter by quarter basis, rather than over an extended period. In the period described, there were quarters where gas price increases were substantially mitigated through risk management. The mitigating effects were not necessarily a trivial outcome for consumers of gas in that quarter.
- 2.2.18 It is clear that the primary effective smoothing technique is the QRAM. However, it is also clear that the cost of the risk management program is also modest, and provides price smoothing to consumers.
- 2.2.19 For all of these reasons, the Board approves the portion of the O&M attributable to the program for 2007, and continues its authorization of the program as a whole for Union.

2.3 BOARD FINDINGS: 24-MONTH FIXED PRICE GAS PURCHASE PROPOSAL

- 2.3.1 With respect to the 24-month fixed-cost purchase plan, Union has made a request to the Board for pre-approval prior to implementing this component of its risk management program. Union said that its request for pre-approval is as a result of comments in the Board's Natural Gas Forum report concerning the availability of pre-approval of long-term supply and/or transportation contacts.

- 2.3.2 Union's proposal for the rolling 24-month fixed cost purchase plan is to systematically accumulate over a two-year period, fixed price 24-month contracts purchased at regular monthly intervals so that at the end of the two years it would have 20 percent of its system gas supply portfolio underpinned by fixed price contracts. The 20 percent level would be achieved by January 2009 and would thereafter be maintained on a rolling basis. Each contract would represent one twenty-fourth of 20 percent of Union's overall gas requirement.
- 2.3.3 The Natural Gas Forum indicated that the Board did not favour utilities entering into long term supply arrangements. The Board also acknowledged that pre-approval of long-term supply arrangements may be appropriate in order to secure a supply of gas.
- 2.3.4 In this Application, Union suggests that its proposal to enter into a rolling series of gas purchase obligations falls into the category of arrangements for which Board pre-approval is appropriate. The Board does not agree. The Board does not consider the contracts contemplated by the plan proposed as falling within the scope of the Natural Gas Forum's concerns.
- 2.3.5 Apart from the fact that there are no prices, terms, counterparties or any other salient details which the Board could approve, which is itself problematic for Union's request, the Board does not consider this type of arrangement to be the kind of supply arrangement to which pre-approval should normally apply. There is no evidence in this case that the series of fixed price contracts that form Union's proposal will have any implication of any kind for the security of supply of gas. By their nature, these rolling fixed price arrangements will be modest in size and opportunistic as to parties, prices and terms. They are also intended to be purely mechanistic. The proposed plan's *raison d'être* is to secure a **price** for gas in each of its segments. The prices so secured are layered, resulting in the desired smoothing effect on commodity prices. The contracts are not designed to pin down supply in a short supply environment, or support any form of infrastructure enhancement.

- 2.3.6 For these same reasons, the contracts contemplated by the plan do not fall within the scope of the Board's disapproval of long term supply arrangements as expressed in the Natural Gas Forum. The purpose and effect of these contracts is to secure prices which vary monthly. The plan may have a 24-month cycle, but each of its segments is purposely discreet, modest in size, and focused on monthly price variations.
- 2.3.7 It is important to highlight the fact that the 24-month fixed price contracts form part of Union's Risk Management program. That program, which has been commented upon elsewhere in this Decision, contemplates the use of fixed price instruments, exactly like those proposed. Insofar as the Board has approved the Risk Management program and the form of hedging instrument represented by the 24-month fixed price contracts, no further Board approval is needed. As is usual, the prudence of these arrangements may be tested when the consequences of them are sought to be included in rates.
- 2.3.8 For these reasons, the Board will not pre-approve the 24-month fixed price contracts.

3. SPLITTING THE M2 RATE CLASS

3.1 BACKGROUND

3.1.1 An unsettled issue in this case is Union's proposal to replace the existing M2 rate class in its Southern Operations area with two new general service rate classes. The proposal was offered in response to a Board directive in Union's RP-2003-0063 rate case where the Board found that Union should conduct a study directed at separating the M2 rate class on the basis of low and high volume customers. Both types of customers are contained in the M2 class which gave rise to concerns about intra-class subsidies. This is because a relatively large proportion of customer-related costs are recovered on a volumetric basis.

3.1.2 The Board's directive is found at page 147 of its RP-2003-0063 Decision.

It is counter-intuitive that a high volume industrial user will incur the same amount of customer related costs as a residential customer. It seems unreasonable that Union cannot differentiate members of this class on the basis of consumption. The Board therefore directs Union to conduct a cost allocation and rate design study directed at separating low volume and high volume consumers currently within the M2 rate class. In designing the study, Union should consider rate implications at different volume breakpoints and should also consider the appropriate level of monthly fixed charges for each sub-class.

3.1.3 Union retained Navigant Consulting (NCI) to review the cost allocation and rate design of the M2 rate class. Consistent with the rate structures proposed by the NCI study, Union proposed to create a small volume general service rate class for residential and non-contract commercial/industrial customers consuming 50,000 m³ or less per year and a large volume general service rate class for customers consuming greater than 50,000 m³ per year.

- 3.1.4 The small volume general service rate class would be called the M1 rate class. The large volume general service rate class would be called the M2 rate class.
- 3.1.5 Union's view was that creating two new rate classes differentiated on the basis of volume was the most appropriate rate design because it most effectively addressed the issue of the intra-class subsidy within the current M2 rate class by allowing for a more direct attribution of customer related costs to small and large volume customers. Union said that it is consistent with the rate design principles already in use by the utility in the design of all its rates in that it reflects differences in load profile and load factor and does not consider end use.
- 3.1.6 Another reason offered by Union was that the impact on the billing system and the associated costs was not prohibitive. Union estimated the capital and ongoing annual O&M costs associated with modifying the billing system to be approximately \$630,000 and \$115,000, respectively.
- 3.1.7 Union also supported NCI's proposed breakpoint of 50,000 m³ because it results in less variation in average use per customer and load factor for each of the new rate classes when compared to the current M2 rate class. Union said that the new rate classes are more homogeneous than the old single undifferentiated M2 rate class. The utility also noted that the new M2 breakpoint would be the same as the current breakpoint for Rate 01 and Rate 10 in the Northern and Eastern Operation area thus resulting in harmonized eligibility criteria for the general service rate classes in both operating areas.
- 3.1.8 Union noted as well, that it would be revenue-neutral to the rate design change.
- 3.1.9 Union's proposal is to implement the new M1 and M2 rate classes effective January 1, 2008, after the billing system changes are made in 2007 to accommodate the new classes.
- 3.1.10 In terms of customer impacts in the new M1 class, Union's evidence indicated that delivery charge impacts varied between plus 9.3% and minus 3.0%. The larger (unfavourable) impacts in the range of 3.3% to 9.3% were noted across

higher volume levels in the 30,000 to 50,000 m³ annual consumption range. In the new M2 rate class, impacts ranged from minus 4.4% to plus 0.3%. The only unfavourable impact in the new M2 rate class was found at the 50,000 m³ volume point.

3.1.11 Union's proposal to split M2 was opposed by several of the intervenors, most notably SEC. SEC presented a critique of the proposal prepared by its witness, Mr. Paul Chernick of Resource Insight Inc., that suggested Union's proposal is fundamentally flawed and should therefore be rejected. Further, Mr. Chernick said that the various ratepayer groups should have input into the process and with this in mind, Union should be directed to commission a new study, in consultation with affected ratepayers. A number of intervenors favoured additional consultation among interested ratepayer groups.

3.1.12 CCC suggested that Mr. Chernick did not offer a credible alternative to Union's proposal and that the underlying justification for Union's split proposal is not only reasonable but appropriate, and should therefore be accepted by the Board. VECC adopted the arguments of CCC on this matter.

3.2 BOARD FINDINGS

3.2.1 The Board is of the opinion that rate design should be based on the widely accepted principle of cost causality. Previous decisions on this matter have been consistent in rejecting the differentiation of rates for social reasons. Obtaining homogeneity of cost characteristics in the establishment of rate classes remains the optimum method of avoiding cross-subsidization.

3.2.2 In considering this issue, the Board is mindful of the fact that the Board decision in RP-2003-0063 was the impetus for Union's research activities and ultimately its proposal. As noted above, the Board expressed a view in its RP-2003-0063 Decision that the cost allocation and rate design study be directed at separating low volume customers from high volume customers. The Board notes that the

direction to Union in that case was to conduct a study and to file it in a subsequent rate application.

- 3.2.3 Mr. Chernick's critique of Union's study, prepared by NCI, posits that end-use can be a factor in the establishment of rate classes. In submissions by SEC, the assertion was made that the Board indicated in RP-2003-0063 that it believed residential customers had a different load profile and cost characteristics than other customers. The Board does not accept SEC's interpretation of the Board's direction. The segment of the excerpt referenced that is pertinent is as follows.

It is counter-intuitive that a high-volume industrial user will incur the same amount of customer-related costs as a residential customer. It seems unreasonable that Union cannot differentiate members of this class on the basis of consumption.

In the Board's view, a simple reading of the text indicates that the chosen examples of a high-volume industrial user and a residential customer were selected as known entities likely to be at opposite ends of the consumption range, not to select out residential use as having unique characteristics that intuitively warrant a separate rate class.

- 3.2.4 Mr. Chernick acknowledged under cross examination by CCC that SEC's proposal for more study may not necessarily result in any fundamental changes to the existing Union proposal. The Board is not of the opinion that end-use categories should be a decisive factor in the determination of rate classes. The Board is not persuaded by SEC's position or the evidence of its witness to direct Union to conduct further study prior to any differentiation of customers within the current M2 class.
- 3.2.5 LPMA provided its analysis of the Union position and rationale for support of using 50,000 cubic meters as the breakpoint. LPMA submitted that the load factors are more homogeneous in the proposed M1 and M2 rate classes than in the existing M2 class. LPMA drew attention to the split point of 50,000 cubic metres between the 01 and the 10 rate classes in Union's Northern and Eastern

operations. The Board agrees with LPMA that these points have merit in support of the proposed rate class division.

- 3.2.6 LPMA, while supportive of Union’s position, did provide an alternative proposal to be considered in the event that the Board found that it was premature to move ahead with the division of the existing M2 rate class. LPMA suggested as an alternative that Union be directed to collect peak-day data on a cross section of the M2 customer base. This would involve the installation of a statistically significant number of metering devices to distinguish the various load factors and consumption patterns. While the Board agrees that additional data may lead to a more precise division of rate classes it does not feel that the cost benefit analysis of the metering exercise has been contemplated in sufficient detail at this time.
- 3.2.7 The Board is of the view that on the full spectrum of options available in creating rate classes, the optimum number will be achieved through a process whereby cost effective analysis reveals adequately unique cost causality groupings of customers. The Board is convinced by the evidence in this application, that the proposed division of the M2 class is a movement in the appropriate direction.
- 3.2.8 For these reasons, the Board approves Union’s proposal to split the M2 class into two new classes in accordance with its application.

4. RATE M2 AND RATE 01 MONTHLY CHARGE

4.1 BACKGROUND

- 4.1.1 An unsettled issue in the hearing was the proposal to increase the monthly fixed charge for the current rate M2 (Southern Operations area) and Rate 01 (Northern and Eastern Operations areas). The charge is currently established at \$14 per month for both rate classes and the proposal is to increase the charge to \$16 per month effective January 1, 2007.
- 4.1.2 Union said that the reason for the increase is to better align cost incurrence and cost recovery of customer-related costs in the monthly charge. These are the costs associated with providing service to customers including meter costs, regulators, services and distribution customer accounting. Currently, the monthly charge recovers 64% of these costs in the Southern area and 49% in the Northern and Eastern areas. The increase would escalate that recovery to 73% (Southern) and 56% (Northern and Eastern).
- 4.1.3 The proposal is revenue neutral to the Company. Due to commensurate decreases in variable charges, the proposal recovers the same amount of revenue at the rate class level as it would under the current design.
- 4.1.4 The Board has approved increases to the monthly charge for Union over the past number of years. In 2003, the charge was \$10 per month. On January 1, 2004, the monthly charge was increased by \$2 to \$12 per month and on January 1, 2005 it was increased from \$12 to \$14.
- 4.1.5 In terms of the impact of the proposal on the customer's bill, customers at the lower end of the volume range will experience a slightly higher annual delivery bill due to the shift in emphasis from a volumetric cost recovery to a greater

proportion of cost recovery derived from the fixed monthly charge. The opposite is true for customers at the higher volume range of the rate class.

4.1.6 Union's witness stated that previous increases in the monthly charge did not seem to raise any significant concerns from its customers.

4.1.7 Intervenors were divided on the issue. A number of intervenors supported Union's proposal, saying that it reduces the intra-class subsidy and was a move in the right direction towards cost causality. Of those that did not support Union, the following reasons were offered:

- the Board should be concerned about rate shock and limit the increase to \$1 or spread the \$2 increase over two years;
- the proposal unfairly burdens lower volume customers; and
- the reduction in the variable portion of the tariff reduces the incentive to conserve energy.

4.2 BOARD FINDINGS

4.2.1 The Board notes that the rationale provided by Union in support of the proposal to further increase the fixed portion of these rate classes from the current \$14 to \$16 in this application is substantially the same as was provided in its last case, RP-2003-0063. The Board agrees with Union that the alignment of cost incurrence with cost recovery is in keeping with sound rate design principles.

4.2.2 The intervenors that were opposed to Union's proposal provided rationale based on rate impact, affordability and suggested that lower volumetric charges lessen the incentive to conserve energy. There was no argument provided countering the notion that an increase in the fixed monthly charge would improve the alignment of cost incurrence with cost recovery.

4.2.3 In the Board's view, Union's proposal to increase the fixed monthly charge is based on a straight-forward cost allocation element of rate design and is therefore

appropriate. The Board also accepts Union's evidence that the previous shift in revenue collection from the variable portion of the bill to the fixed portion did not generate customer concern. Under the proposal, the bill impact on low volume consumers is greater than the impact on higher volume consumers. However, the dollar amounts are minimal. For example, a customer with an annual volume of 1,700 m³ per year will pay an additional annual amount of \$10 (Northern and Eastern) or \$13 (Southern).

- 4.2.4 In considering the argument put forward that the shift in revenue collection from the volumetric to the fixed portion of the distribution tariff reduces the consumer's conservation incentive, the Board must weigh two principles central to its mandate. In addition to its responsibility to set just and reasonable rates, the Board also has the statutory objective to promote energy conservation. However, the Board has heard no evidence in this hearing substantiating a negative impact on conservation due to the proposed change.
- 4.2.5 For all these reasons, the Board approves the Union application to increase the monthly fixed charge of the M2 and the 01 Rate Classes from \$14 to \$16 effective January 1, 2007.

5. COST AWARDS

- 5.1.1 Parties found eligible for cost awards shall submit any claims for awards of costs to the Board Secretary and Union by July 31, 2006. The Board will not accept claims received after that date. Parties must include adequate documentation in support of any claims.
- 5.1.2 Should Union have any comments concerning any of the claims, these concerns shall be forwarded to the Board and to the claimant by August 11, 2006.
- 5.1.3 The Board will take into consideration comments from Union prior to issuing any final judgment on awards.

DATED at Toronto June 29, 2006.

Signed on Behalf of the Panel

Original Signed By

Pamela Nowina
Vice Chair, Presiding Member

**UNION GAS LIMITED
RATES FOR FISCAL 2007**

DECISION WITH REASONS

BOARD FILE NO. EB-2005-0520

SETTLEMENT PROPOSAL
(DATED MAY 15, 2006)

June 29, 2006

EB-2005-0520

UNION GAS LIMITED

SETTLEMENT AGREEMENT

May 15, 2006

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EB-2005-0520

SETTLEMENT AGREEMENT

This Settlement Agreement (“Agreement”) is for the consideration of the Ontario Energy Board (“the Board”) in its determination, under Docket No. EB-2005-0520, of Calendar 2007 rates for Union Gas Limited (“Union”). By Procedural Order No. 1 dated February 24, 2006, the Board scheduled a Settlement Conference to commence May 1, 2006. The Settlement Conference was duly convened, in accordance with Procedural Order No. 1, with Mr. Ken Rosenberg as facilitator. The Settlement Conference proceeded until May 12, 2006.

Attached as Appendix A to the Agreement is the Board’s Issues List which was issued through Procedural Order No. 3 dated March 22, 2006. The Agreement identifies the issues on the Board’s list for which agreement has been reached. The Agreement is supported by the evidence filed in the EB-2005-0520 proceeding.

Each of the issues identified below falls within one of the following three categories:

1. an issue for which there is complete settlement, because Union and all of the other parties who discussed the issue either agree with the settlement or take no position,
2. an issue for which there is partial settlement, agreed to by Union and a majority of parties but one or more parties do not agree with the settlement,
3. an issue for which there is no settlement.

For the purposes of this Agreement, the term “no position” may include both parties who were involved in negotiations on an issue but who ultimately took no position on that issue and parties who were not involved in negotiations on that issue at all.

It is acknowledged and agreed that none of the completely settled provisions of this Agreement is severable. If the Board does not, prior to the commencement of the hearing of the evidence in EB-2005-0520, accept the completely settled provisions of the Agreement in their entirety, there is no Agreement (unless the parties agree that any portion of the Agreement the Board does accept may continue as a valid Agreement).

It is further acknowledged and agreed that parties will not withdraw from this Agreement under any circumstances except as provided under Rule 32.05 of the Ontario Energy Board's Rules of Practice and Procedure.

For greater certainty, the parties further acknowledge and agree that these conditions apply to settled issues in respect of which they are shown as taking no position.

It is also acknowledged and agreed that this Agreement is without prejudice to parties re-examining these issues in any other proceeding.

The parties agree that all positions, information, documents, negotiations and discussion of any kind whatsoever which took place or were exchanged during the Settlement Conference are strictly confidential and without prejudice, and inadmissible unless relevant to the resolution of any ambiguity that subsequently arises with respect to the interpretation of any provision of this Agreement.

The role adopted by Board Staff in Settlement Conferences is set out on page 5 of the Board's Settlement Conference Guidelines. Although Board Staff is not a party to this Agreement, as noted in the Guidelines, "Board Staff who participate in the settlement conference are bound by the same confidentiality standards that apply to parties to the proceeding".

The evidence supporting the agreement on each issue is set out in each section of the Agreement. Abbreviations will be used when identifying exhibit references. For example, Exhibit B1, Tab 4, Schedule 1, Page 1 will be referred to as B1/T4/S1/p1. There are Appendices to the Agreement which provide further evidentiary support. The structure and presentation of the settled issues is consistent with settlement agreements which have been accepted by the Board in prior cases. The parties agree that this Agreement and the Appendices form part of the record in the proceeding.

The following parties participated in the Settlement Conference:

Canadian Manufacturers & Exporters ("CME")

City of Kitchener ("CCK")

Consumers Council of Canada ("CCC")

Coral Energy Canada Inc. ("Coral")

Enbridge Gas Distribution Inc. ("EGD")

Energy Probe Research Foundation ("Energy Probe")

FONOM & the Cities of Timmins and Greater Sudbury ("FONOM & the Cities")

Industrial Gas Users Association ("IGUA")

London Property Management Association (“LPMA”)

Low-Income Energy Network (“LIEN”)

Ontario Association of Physical Plant Administrators (“OAPPA”)

Ontario Energy Savings L.P. (“OESLP”)

School Energy Coalition (“SEC”)

Sithe Global Power Gateway (“Sithe”)

Superior Energy Management (“SEM”)

TransAlta Cogeneration L.P. and TransAlta Energy Corp. (“TransAlta”)

TransCanada PipeLines Limited (“TCPL”)

Vulnerable Energy Consumers Coalition (“VECC”)

Wholesale Gas Services Purchasers Group (“WGSPG”)

OVERVIEW

In support of the need for a rate increase, Union identified factors that have an impact on its current and expected business environment, either affecting Union directly, by increasing Union's costs, or indirectly by changing Union's throughput and corresponding revenues from customers. These factors included the impacts of high energy prices, conservation and demand management, foreign exchange, weather, workforce demographics, cost pressures which exceed the general rate of inflation and the investment climate and available investment opportunities. These factors also included the financial and business risks posed by Union's current equity ratio and the impact this will have on Union's ability to raise capital. The rate adjustments that result from this Settlement Agreement will allow the company to make investments to serve new and existing customers, to maintain the integrity of Union's system, including business support processes, and meet all compliance requirements during 2007.

The revenue deficiency reduction for 2007 which the parties have agreed to is approximately \$61.110 million. After excluding incremental DSM budget costs for 2007 of approximately \$9.000 million, Union's revenue deficiency claim for 2007 is \$85.827 million. With this settlement, the revenue deficiency Union will recover in its 2007 rates will be approximately \$24.717 million. (See Appendix E)

The 2007 revenue deficiency of \$24.717 million represents an increase of approximately 2.7% over current approved delivery, storage and transportation rates. (See Exhibit H3, Tab 1, Schedule 1 for delivery, storage and transportation revenue at current rates.) It is the overall revenue deficiency reduction of \$61.110 million and its component parts which constitutes the

consideration for the intervenors' acceptance of Union's budgets and forecasts for 2007 as more particularly described below.

1 RATE BASE (EXHIBIT B)

1.1 IS THE PROPOSED TOTAL CAPITAL EXPENDITURES FORECAST FOR 2007 APPROPRIATE?

(Complete Settlement)

Except where specific adjustments are identified, the parties agreed to negotiate Union's 2007 rate base on an envelope basis. Some parties took no position on specific adjustments. The 2007 rate base settlement is, therefore, a global settlement, except where specific adjustments are identified, of all 2007 rate base issues. The parties agree that Union's proposed 2007 rate base shall be reduced by \$35.0 million (which equates to approximately \$70.0 million in 2007 capital expenditures) from the \$3,412.198 million proposed by Union (B1/SS1/Addendum / line 15(f)) to \$3,377.198 million. Union shall have discretion to determine which capital expenditures or working capital items are not included in its determination of 2007 rate base. However, Union agrees that the Dawn Dehydrator Facility Modification project and the Greenfield Energy Centre project shall not be included in its 2007 rate base determination. See Section 7.2

The following parties agree with the settlement of this issue: CME, FONOM & the Cities, CCK, CCC, Energy Probe, IGUA, LPMA, LIEN, SEC, TransAlta, VECC, WGSPG

The following parties take no position on this issue: Coral, EGD, OAPPA, OESLP, Sithe, SEM, TCPL

Evidence References:

1. B1/T1 – T7; B1/SS 2/Addendum; B1/SS3/Addendum
2. J1.01, J1.02, J1.03, J1.04, J1.05, J1.06, J1.07, J1.08, J1.09, J1.10, J3.01, J3.02, J3.03, J3.04, J3.05, J3.06, J3.07, J6.01, J6.02, J6.03, J6.04, J6.05, J6.06, J6.07, J6.08, J6.09, J6.10, J6.11, J6.12, J6.13, J6.14, J6.15, J6.16, J13.01, J13.02, J13.03, J13.04, J14.02, J14.03, J14.04, J14.05, J14.10, J14.11, J14, 15, J14.16, J14.19, J14.24, J21.01, J21.02, J21.03, J21.04, J29.01, J29.02, J29.03, J29.04, J29.05, J29.06, J29.07, J29.08

1.2 WERE CAPITAL EXPENDITURES FOR 2005 AND 2006 PRUDENT IN VIEW OF THE FACT THAT NOT ALL AMOUNTS RECEIVED OEB SCRUTINY?

(Complete Settlement)

Subject to Section 1.1, the parties accept that the total amount of Union's 2005 and 2006 capital expenditures is reasonable.

Evidence References:

1. B1/T1-T7; B1/SS2 Addendum; B1/SS3 Addendum
2. J3.08, J13.01, J14.02, J14.05, J14.11, J14.16

1.3 IS THE AMOUNT PROPOSED FOR RATE BASE IN 2007 APPROPRIATE?

(Complete Settlement)

See Section 1.1

Evidence References:

1. B1/T1; B1/T2; B1/T8; B1/SS1/Addendum; B1/SS2/Addendum; B1/SS3/Addendum; B3-B6/T1/S1; B3-B6/T2/S1; B3-B6/T2/S2; B3-B6/T2/S3; B3-B6/T3/S1; B3-B6/T3/S2
2. J1.11, J1.12, J5.01, J13.01, J13.03, J14.01, J14.12, J14.13, J14.15, J14.16, J14.17, J14.18, J14.19, J14.20, J14.21

1.4 WERE AMOUNTS CLOSED (OR PROPOSED TO BE CLOSED) TO RATE BASE IN 2005 AND 2006 PRUDENTLY INCURRED IN VIEW OF THE FACT THAT NOT ALL AMOUNTS RECEIVED OEB SCRUTINY?

(Complete Settlement)

See Section 1.1

Evidence References:

1. B1/T1, B1/T2; B1/SS1/Addendum; B1/SS2/Addendum; B1/SS3/Addendum; B4-B5/T1/S1; B4-B5/T2/S1; B4-B5/T2/S2; B4-B5/T2/S3; B4-B5/T3/S1; B4-B5/T3/S2
2. J3.09, J13.01

1.5 IS THE PROPOSED FORECAST OF NEW CUSTOMER ATTACHMENTS FOR 2007 APPROPRIATE IN VIEW OF ECONOMIC TRENDS AND RECENT YEARS EXPERIENCE?

(Complete Settlement)

Subject to Section 1.1, the parties accept Union's forecast to attach 28,287 customers in 2006 and 24,409 customers in 2007 and agree that the rate effects of these customer attachments are appropriate.

Evidence Reference:

1. B1/T3; C1/T1; B1/SS3/Addendum
2. J13.01, J14.06, J14.08, J14.09, J21.05

1.6 IS THE INCREASE TO THE 2007 RATE BASE RESULTING FROM THE UPDATED LEAD-LAG STUDY APPROPRIATE?

(Complete Settlement)

Subject to Section 1.1, the parties accept the results of Union's updated Lead/Lag Study.

Evidence References:

1. B1/T8; B1/SS1/Addendum; B1/T8/S1 – 11; B3/T1/S1
2. J1.13, J1.14, J3.10, J6.17, J13.01, J13.05, J14.22, J14.23, J14.25, J14.46, J14.72, J21.06

2 OPERATING REVENUE (EXHIBIT C)

2.1 IS THE PROPOSED 2007 GENERAL SERVICE DEMAND FORECAST APPROPRIATE?

(Complete Settlement)

In consideration for the overall revenue deficiency reduction of \$61.110 million and the total revenue increases component there of \$14.000 million described in Sections 2.4 and 2.5, the parties accept that Union's 2007 General Service demand forecasts of volume of 5,249,447 10³ m³ and delivery revenue of \$553.675 million are reasonable. The parties agree that Union's

response to the Board's directive concerning the external review of the NAC forecast methodology is reasonable.

The following parties agree with the settlement of this issue: FONOM & the Cities, CCK, CCC, Energy Probe, IGUA, LPMA, LIEN, SEC, VECC, WGSPG

The following parties take no position on this issue: CME, Coral, EGD, OAPPA, OESLP, Sithe, SEM, TransAlta, TCPL

Evidence References:

1. C1/T1; C1/SS1-SS6/Addendum; C3-C6/T2/S1-S6
2. JJ1.15, J1.16, J1.17, J1.18, J1.19, J3.11, J3.12, J6.19, J13.01, J13.06, J13.07, J13.08, J13.09, J14.08, J14.09, J14.26, J14.27, J14.28, J14.29, J14.31, J14.32, J14.33, J14.34, J14.39, J14.41, J21.07, J21.08, J21.09, J29.09, J29.10

2.2 IS UNION CORRECTLY IMPLEMENTING THE BOARD'S DIRECTIVE FOR A BLENDED WEATHER NORMALIZATION METHODOLOGY (RP-2003-0063 PARA 2.2)?

(Complete Settlement)

The parties accept that Union's proposal to establish the test year weather normalization on the basis of a blend of 55% of the 30 year average and 45% of the 20 year declining trend estimate is in accordance with the RP-2003-0063 Decision with Reasons and that the forecast revenue consequences of this proposal are reasonable.

The following parties agree with the settlement of this issue: CME, FONOM & the Cities, CCC, Energy Probe, IGUA, LPMA, LIEN, SEC, VECC, WGSPG

The following parties take no position on this issue: CCK, Coral, EGD, OAPPA, OESLP, Sithe, SEM, TransAlta, TCPL

Evidence References:

1. C1/T1/p10
2. J13.01, J13.10, J14.30

2.3 IS THE PROPOSED 2007 CONTRACT DEMAND FORECAST APPROPRIATE?

(Complete Settlement)

In consideration for the overall revenue deficiency reduction of \$61.110 million and the total revenue increases component there of \$14.000 million described in Sections 2.4 and 2.5, the parties accept that Union's 2007 Contract demand forecasts of volume of 9,276,704 10³ m³ and delivery revenue of \$115.021 million are reasonable and that the forecast revenue consequences of this forecast are reasonable.

The following parties agree with the settlement of this issue: CME, FONOM & the Cities, CCK, CCC, Energy Probe, IGUA, LPMA, LIEN, SEC, VECC, WGSPG

The following parties take no position on this issue: Coral, EGD, OAPPA, OESLP, Sithe, SEM, TransAlta, TCPL

Evidence References:

1. C1/T2; C1/SS1-SS6/Addendum; C3-C6/T2/S1-S6
2. J1.20, J1.21, J1.22, J1.23, J1.24, J6.18, J13.01, J13.11, J13.12, J14.35, J14.39, J14.40, J14.41, J14.43, J29.11, J30.03, J30.04, J30.05

2.4 IS THE PROPOSED TOTAL 2007 STORAGE AND TRANSPORTATION (S&T) REVENUE FORECAST APPROPRIATE?

(Complete Settlement)

The parties accept Union's 2007 S&T Core services revenue forecast of \$121.138 million (C1/SS7 Addendum, line 9(k)). The parties agree that Union's 2007 Short Term Storage Services revenue forecast shall be increased by \$12.0 million from \$1.794 million as proposed by Union (C1/SS7 Addendum, line 11(k)) to \$13.794 million. This increase will result in Union's 2007 Total Transactional Services revenue forecast increasing by \$12.0 million from the \$60.885 million as proposed by Union (C1/SS7 Addendum, line 17(k)) to \$72.885 million. The parties agree that, with this adjustment, Union's 2007 Storage and Transportation (S&T) Revenue forecast is reasonable.

The parties acknowledge that the S&T forecast accepted in this agreement includes revenues associated with providing storage services to ex-franchise customers at market based rates.

Further, the parties acknowledge that the appropriateness of charging rates that exceed cost for storage services provided by Union to ex-franchise customers and the appropriateness of the continuation of S&T deferral accounts will be addressed in the Natural Gas Electricity Interface Review proceeding (EB-2005-0551). (The S&T deferral accounts will remain in operation for such revenues unless the EB-2005-0551 proceeding determines otherwise.) Consequently, the outcome of the EB-2005-0551 proceeding may vary the S&T revenue forecast accepted in this agreement.

The following parties agree with the settlement of this issue: FONOM & the Cities, CCK, CCC, EGD, Energy Probe, IGUA, LPMA, LIEN, SEC, TransAlta, VECC, WGSPG

The following parties take no position on this issue: CME, Coral, OAPPA, OESLP, Sithe, SEM, TCPL

Evidence References:

1. C1/T3; D1/T1; C1/SS7/Addendum; C3-C5/T1/S1/Addendum; C3-C5/T1/S2/Addendum; C6/T1/S1-2; C3-C6/T4/S1-4; C5/T4/S1A;
2. J1.25, J1.26, J1.27, J1.28, J1.29, J3.13, J3.14, J3.15, J3.16, J5.02, J6.20, J6.21, J13.01, J13.13, J13.14, J13.15, J14.36, J14.37, J14.39, J14.42, J21.10, J25.01, J29.12, J29.13, J29.14, J29.15

2.5 IS THE PROPOSED TOTAL 2007 OTHER REVENUE FORECAST APPROPRIATE GIVEN THAT IT REPRESENTS A DECREASE FROM THE 2005 ESTIMATE?

(Complete Settlement)

The parties agree that Union's 2007 Other Revenue forecast shall be increased by \$2.0 million from the \$22.434 million proposed by Union (C1/SS8/line 9(k)) to \$24.434 million. This revenue will be attributed to the Mid Market Transactions component of the Other Revenue forecast shown at C1/SS8/line 6(k). The parties agree that, with this adjustment, Union's Other Revenue forecast is reasonable.

The following parties agree with the settlement of this issue: CME, FONOM & the Cities, CCK, Coral, CCC, Energy Probe, IGUA, LPMA, LIEN, SEC, VECC, WGSPG

The following parties take no position on this issue: EGD, OAPPA, OESLP, Sithe, SEM, TransAlta, TCPL

Evidence Reference:

1. C1/T4; C3-C5/T1/S1/Addendum; C3-C5/T1/S2/Addendum; C6/T1/S1-2; C3-C4/T3/S1; C6/T3/S1; C5/T3/S1/Addendum
2. J1.30, J6.22, J6.23, J7.01, J13.01, J13.16, J14.38, J14.39, J14.44, J21.11, J29.16

3 COST OF SERVICE (EXHIBIT D)

3.1 IS THE PROPOSED 2007 GAS SUPPLY EXPENSES FORECAST APPROPRIATE?

(Complete Settlement)

The parties accept that Union's 2007 gas supply expenses forecast, with the exception of its proposed risk management costs, are reasonable. Union has confirmed that its proposed 24-month Fixed Cost Purchase Plan has no impact on its 2007 gas supply expenses forecast.

The parties accept the procedures identified in Appendix B for reporting of new upstream transportation contracts that may form part of Union's "system" sales service in the future.

The following parties agree with the settlement of this issue: CME, CCC, Energy Probe, IGUA, LPMA, LIEN, SEC, TCPL, VECC, WGSPG

The following parties take no position on this issue: CCK, Coral, EGD, FONOM & the Cities, OAPPA, OESLP, Sithe, SEM, TransAlta

Evidence References:

1. D1/T1; D3/T2/S1
2. J1.31, J3.17, J5.03, J5.04, J5.05, J5.06, J6.26, J6.27, J6.28, J6.29, J13.01, J13.17, J13.18, J13.19, J13.20, J14.45, J14.46, J14.47, J17.01, J26.01, J27.01, J27.02, J27.03, J27.04, J27.05, J27.06, J27.07, J27.08, J27.09, J27.10

3.2 IS UNION CORRECTLY IMPLEMENTING THE BOARD'S DIRECTIVES FROM THE RP-2003-0063 DECISION ON NORTHERN STORAGE ALLOCATIONS AND LOAD BALANCING (RP-2003-0063, P 69, 121, 122)?

(Complete Settlement)

The parties accept Union's evidence on northern storage allocation and load balancing.

The following parties agree with the settlement of this issue: CCC, Energy Probe, IGUA, LPMA, LIEN, SEC, VECC, WGSPG

The following parties take no position on this issue: CME, CCK, Coral, EGD, OAPPA, OESLP, FONOM & the Cities, Sithe, SEM, TransAlta, TCPL

Evidence References:

1. D1/T1/p9
2. J3.18, J7.01, J13.01, J18.14

3.3 IS THE OVERALL LEVEL OF THE 2007 O&M BUDGET APPROPRIATE, GIVEN THAT IT REPRESENTS AN INCREASE OVER THE LAST APPROVED BOARD FORECAST (2004)?

(Complete Settlement)

The parties acknowledge that the appropriate DSM budget for Union for 2007 will be determined in a separate generic DSM proceeding (EB-2006-0021). As such, incremental DSM costs of \$9.000 million which form part of the 2007 O&M budget in this proceeding have been removed from the revenue deficiency for purposes of preparing schedules to identify the terms of this Agreement. The parties agree that Union's proposed 2007 O&M budget, excluding incremental DSM expenses, of \$344.325 million shall be reduced by \$23.000 million to \$321.325 million. An O&M budget of \$321.325 million represents approximately a 10% increase over the 2004 Board approved O&M budget.

The parties agree there shall be only two specifically prescribed adjustments within the \$23.000 million reduction. Details of these two adjustments are provided in Section 3.8 below.

Other than specific adjustments identified in this Agreement, the parties agreed during the settlement conference to negotiate O&M on a global or “envelope” basis. Parties agree that, subject to the specific adjustments identified in this Agreement, Union has the discretion to manage its overall 2007 O&M budget within these parameters. This is consistent with the approach followed by intervenors and accepted by the OEB in prior OEB proceedings such as E.B.R.O. 497 and E.B.R.O. 499. The O&M settlement, therefore, is a global settlement of all items within the O&M envelope. The parties recognize that particular components of the adjustments negotiated were incapable of precise determination but view the adjustments overall as falling within a reasonable range. Different parties had different approaches to the ultimate global amount of O&M reduction. Some parties took no position on any specific adjustments. However, with the global and specific adjustments outlined in this Agreement, parties agree that the overall level of Union’s 2007 O&M budget is reasonable.

The following parties agree with the settlement of this issue: CME, FONOM & the Cities, CCK, CCC, Energy Probe, IGUA, LPMA, LIEN, SEC, VECC, WGSPG

The following parties take no position on this issue: Coral, EGD, OAPPA, OESLP, Sithe, SEM, TransAlta, TCPL

Evidence References:

1. D1/T2; D2/T1; D3-D6/T3/S2; A2/T2/S1
2. J1.32, J6.24, J6.25, J6.30, J6.31, J6.32, J6.33, J6.34, J6.35, J6.36, J6.37, J13.01, J13.21, J13.22, J14.07, J14.17, J14.51, J14.52, J14.53, J14.55, J21.12, J21.13, J29.17, J29.18, J29.19, J29.20

3.4 IS THE INCREASE IN HUMAN RESOURCES RELATED COSTS APPROPRIATE?

(Complete Settlement)

See Section 3.3

Evidence References:

1. D1/T2/p2, T3
2. J1.33, J1.34, J1.35, J1.36, J1.37, J1.38, J1.39, J3.19, J3.20, J3.21, J6.38, J13.01, J13.23, , J13.24, J21.14, J29.21

3.5 IS THE PROPOSED 2007 AMOUNT TO BE RECOVERED IN AFFILIATE SERVICES APPROPRIATE?

(Complete Settlement)

See Section 3.3

Evidence References:

1. D1/T2/p3, T8
2. J1.40, J1.41, J1.42, J1.43, J1.44, J1.45, J1.47, J1.48, J1.49, J1.50, J1.51, J6.39, J6.40, J6.41, J7.03, J13.01, J13.25, J13.26, J14.53, J14.54, J21.15, J21.16, J29.22, J29.23, J29.24, J29.25, J29.26, J29.27, J29.28, J29.29, J20.30

3.6 IS THE INCREASE IN CUSTOMER GROWTH RELATED COSTS APPROPRIATE?

(Complete Settlement)

See Section 3.3

Evidence References:

1. D1/T2/p4
2. J3.22, J7.04, J13.01, J25.02, J29.31

3.7 IS THE ASSUMPTION FOR INFLATION RELATED COST INCREASES APPROPRIATE?

(Complete Settlement)

See Section 3.3

Evidence References:

1. D1/T2/p4
2. J1.52, J3.23, J13.01

3.8 IS THE INCREASE IN REGULATORY AND OEB RELATED COSTS APPROPRIATE?

(Complete Settlement)

The parties agree that Union shall reduce its 2007 regulatory cost forecast by \$1.4 million to reflect a reduction in the OEB cost assessment from \$5.1 million to \$3.7 million and by a further \$2.3 million to reflect a two year amortization (2007 and 2008) of the forecast \$4.6 million hearing cost. In support of the two year hearing amortization settlement, the parties agree that the rate order that implements new rates effective January 1, 2007 should specify that the Board orders the two year amortization.

The following parties agree with the settlement of this issue: CME, FONOM & the Cities, CCK, CCC, Energy Probe, IGUA, LPMA, LIEN, SEC, VECC, WGSPG

The following parties take no position on this issue: Coral, EGD, OAPPA, OESLP, Sithe, SEM, TransAlta, TCPL

Evidence References:

1. D1/T2/p5; D3/T3/S3
2. JJ1.53, J1.54, J1.55, J6.43, J6.44, J13.01, J14.48

3.9 IS THE INCREASE IN BAD DEBT RELATED COSTS APPROPRIATE?

(Complete Settlement)

See Section 3.3

Evidence References:

1. D1/T2/p5
2. J3.24, J7.05, J13.01, J14.49, J21.17

3.10 IS THE INCREASE IN INTEGRITY MANAGEMENT PROGRAM (IMP) COST APPROPRIATE?

(Complete Settlement)

See Section 3.3

Evidence References:

1. B1/T6; D1/T2/p7
2. J3.07, J13.01, J14.16

3.11 IS THE INCREASE IN CAPITALIZED OVERHEADS APPROPRIATE, INCLUDING THE KPMG REPORT AND A CONSIDERATION OF THE PROPOSED NEW COST DRIVERS?

(Complete Settlement)

The parties accept that the cost drivers used to determine capitalized overheads as recommended by KPMG (at D2/T1) and the resulting capitalized overheads are reasonable.

The following parties agree with the settlement of this issue: FONOM & the Cities, CCC, Energy Probe, IGUA, LPMA, LIEN, SEC, VECC, WGSPG

The following parties take no position on this issue: CME, CCK, Coral, EGD, OAPPA, OESLP, Sithe, SEM, TransAlta, TCPL

Evidence References:

1. D1/T2/p7, D2/T1
2. J3.25, J13.01, J14.50

3.12 IS UNION'S PROPOSAL TO CONTINUE, OR DISCONTINUE, DEFERRAL ACCOUNTS FOR THE 2007 TEST YEAR APPROPRIATE?

(Complete Settlement)

The parties accept Union's proposal to discontinue deferral accounts 179-56 (Comprehensive Customer Information Program), 179-60 (Direct Purchase Revenue and Payments), 179-110 (Storage Rights Compensation Costs) and 179-114 (Incremental OEB Cost Assessment). This is without prejudice to parties with respect to any positions they may advance in the context of a multi-year incentive regulation proceeding.

The following parties agree with the settlement of this issue: CME, FONOM & the Cities, CCK, CCC, Energy Probe, IGUA, LPMA, LIEN, SEC, VECC, WGSPG

The following parties take no position on this issue: Coral, EGD, OAPPA, OESLP, Sithe, SEM, TransAlta, TCPL

Evidence References:

1. D1/T5
2. J6.45, J13.01, J13.27

3.13 APPROPRIATENESS OF UNION’S GDAR RELATED COSTS IN ORDER TO BE GDAR COMPLIANT BY JANUARY, 2008.

(Complete Settlement)

The parties accept Union’s forecast GDAR compliance costs on the understanding that all forecast capital cost variances will be captured in the GDAR deferral account and capital cost variances will be subject to review when deferral account balances are disposed of.

The following parties agree with the settlement of this issue: CME, FONOM & the Cities, CCK, CCC, Energy Probe, IGUA, LPMA, LIEN, SEC, VECC, WGSPG

The following parties take no position on this issue: Coral, EGD, OAPPA, OESLP, Sithe, SEM, TransAlta, TCPL

Evidence References:

1. D1/T6
2. J1.56, J6.46, J6.47, J6.48, J7.06, J13.01, J21.18, J21.19, J23.01, J30.08

3.14 ARE THE INCREASES IN UNION’S 2007 FORECAST OF PROPERTY, CAPITAL AND INCOME TAXES AND THE TAX NORMALIZATION PROPOSAL APPROPRIATE?

(Complete Settlement)

The parties agree that Union shall reduce its proposed 2007 tax expense by \$3.9 million.¹ This adjustment includes three components:

- Income tax normalization – Union has agreed to withdraw its proposal for a 2007 tax normalization adjustment of \$1.8 million (pre-tax) as described at D1/T4/ pages 4-5.
- Large Corporations Tax – The 2007 Large Corporations Tax (“LCT”) expense will be reduced by \$1.7 million to reflect the Federal government’s proposed elimination of the LCT as announced by the Federal government in its May 2, 2006 Budget announcement.

¹ Note that this \$3.9 million tax expense reduction does not appear independently as a \$3.9 million line item in the income tax schedule (Appendix E/ Schedule 4) to this Agreement due to the tax effects of other changes being implemented in this Agreement (i.e., capital structure change).

- Provincial Capital Tax – The 2007 Provincial Capital Tax (PCT) expense will be reduced by \$0.4 million to reflect an anticipated reduction of the PCT rate from 0.3% to 0.285% effective January 1, 2007.

The parties agree that in the event the anticipated tax legislation changes are not implemented or if different legislated tax changes are implemented, the impact should be subject to deferral account treatment in 2007. Further, the parties agree that it would be appropriate under incentive regulation for tax legislation changes to be treated as a Z-factor similar to the manner in which cost impacts resulting from changes in federal or provincial income tax legislation were treated during Union's trial PBR period (2001 – 2003).

The following parties agree with the settlement of this issue: CME, FONOM & the Cities, CCK, CCC, Energy Probe, IGUA, LPMA, LIEN, SEC, VECC, WGSPG

The following parties take no position on this issue: Coral, EGD, OAPPA, OESLP, Sithe, SEM, TransAlta, TCPL

Evidence References:

1. D1/T4; D3-D6/T5/S1; D3-D6/T6/S1; D3-D6/T6/S2; F3-F6/T1/S1
2. J1.57, J13.01, J13.28, J14.56, J14.57, J14.59, J14.60, J14.61, J14.62, J14.73

3.15 IS THE PROPOSED 24-MONTH FIXED COST PURCHASE PLAN APPROPRIATE?

(No Settlement)

There was no settlement of this issue.

Evidence References:

1. D1/T1/p16
2. J1.58, J1.59, J6.49, J7.07, J18.01, J18.02, J18.03, J18.04, J18.05, J18.06, J18.07, J18.08, J18.09, J23.02
3. K/T10/S1

3.16 APPROPRIATENESS OF THE GAS COST RISK MANAGEMENT PROGRAM.

(No Settlement)

There was no settlement on this issue.

Evidence References:

1. D1/T1/p15
2. J3.26, J10.01, J10.02, J10.03, J10.04, J10.05, J10.06, J10.07, J10.08, J10.09, J10.10, J10.11, J10.12, J10.13, J10.14, J13.01, J23.03
3. K/T10/S1

4 COST OF CAPITAL (EXHIBIT E)

4.1 IS THE PROPOSAL TO ESTABLISH THE 2007 RETURN ON EQUITY (ROE) USING THE BOARD'S ROE GUIDELINES, UPDATED TO REFLECT THE OCTOBER 2006 CONSENSUS FORECAST, APPROPRIATE?

(Complete Settlement)

The parties agree that the 2007 ROE is to be calculated using the Board's ROE Guidelines, updated to reflect the October 2006 Consensus Forecast.

The following parties agree with the settlement of this issue: CME, FONOM & the Cities, CCK, CCC, Energy Probe, IGUA, LPMA, LIEN, SEC, VECC, WGSPG

The following parties take no position on this issue: Coral, EGD, OAPPA, OESLP, Sithe, SEM, TransAlta, TCPL

Evidence References:

1. E1/T1
2. J21.20, J21.21

4.2 ARE UNION'S PROPOSALS FOR THE COST RATES FOR ITS DEBT AND PREFERENCE SHARE COMPONENTS OF ITS CAPITAL STRUCTURE APPROPRIATE?

(Complete Settlement)

The parties agree that Union's 2007 total costs of long and short-term debt should be reduced by \$1.9 million to reflect more current rates (Global Insights' April 2006 forecast).² Parties accept Union's proposed preference share component of its capital structure at 3.4% and its cost at 4.71%.

The following parties agree with the settlement of this issue: CME, FONOM & the Cities, CCK, CCC, Energy Probe, IGUA, LPMA, LIEN, SEC, VECC, WGSPG

The following parties take no position on this issue: Coral, EGD, OAPPA, OESLP, Sithe, SEM, TransAlta, TCPL

Evidence References:

1. E1/T1/p10
2. J1.60, J1.61, J1.62, J13.29, J13.30, J14.63, J14.66, J14.67, J14.68, J14.69, J14.74, J21.22, J21.23

4.3 IS THE PROPOSAL TO CHANGE THE EXISTING CAPITAL STRUCTURE, INCREASING UNION'S DEEMED COMMON EQUITY COMPONENT FROM 35% TO 40% APPROPRIATE?

(Complete Settlement)

The parties agree that an increase of 1% (from 35% to 36%) in Union's equity ratio is appropriate. Union agrees that in any future proceedings before the Board, it will not use the after tax weighted average cost of capital ("ATWACC") methodology to support any changes it proposes to either the Board's Draft Guidelines on a Formula-Based Return on Common Equity for Regulated Utilities or Union's capital structure. This constraint on Union will terminate if the Board of its own motion proposes or in response to an application by another utility adopts the ATWACC methodology.

² Note that this \$1.9 million debt expense reduction does not appear independently as a \$1.9 million line item in the cost of capital schedule (Appendix E/Schedule 3) to this Agreement due to the effects of other changes being implemented in this Agreement (i.e., capital structure change).

The following parties agree with the settlement of this issue: CME, FONOM & the Cities, CCK, CCC, Energy Probe, IGUA, LPMA, LIEN, SEC, VECC, WGSPG

The following parties take no position on this issue: Coral, EGD, OAPPA, OESLP, Sithe, SEM, TransAlta, TCPL

Evidence References:

1. E1/T1; E2/T1-T3
2. J1.63, J1.64, J1.65, J1.66, J1.67, J2.01, J2.02, J2.03, J2.04, J2.05, J2.06, J2.07, J2.08, J2.09, J2.10, J2.11, J2.12, J2.13, J2.14, J2.15, J2.16, J2.17, J2.18, J2.19, J2.20, J2.21, J2.22, J2.23, J2.24, J2.25, J2.26, J2.27, J2.28, J2.29, J2.30, J2.31, J2.32, J2.33, J2.34, J2.35, J2.36, J2.37, J2.38, J2.39, J2.40, J2.41, J2.42, J3.27, J6.50, J6.51, J13.31, J13.32, J14.64, J14.65, J14.70, J14.71, J14.74, J14.75, J14.76, J14.77, J14.78, J14.79, J14.80, J14.81, J14.82, J21.24, J25.03, J29.32
3. K2
4. L2.1 – L2.36

5 COST ALLOCATION (EXHIBIT G)

5.1 IS UNION’S PROPOSED HARMONIZATION OF COST ALLOCATION METHODOLOGIES IN THE NORTHERN AND EASTERN OPERATIONS AREA AND THE SOUTHERN OPERATIONS AREA, AS DIRECTED BY THE BOARD IN ITS RP-2003-0063 DECISION APPROPRIATE?

(Complete Settlement)

The parties accept that Union’s response to the Board’s directive concerning the harmonization of cost allocation methodologies in the Northern and Eastern Operations Area and the Southern Operations Area is reasonable.

The following parties agree with the settlement of this issue: CME, CCC, Energy Probe, IGUA, LPMA, OAPPA, SEC, VECC, WGSPG

The following parties take no position on this issue: CCK, Coral, EGD, FONOM & the Cities, LIEN, OESLP, Sithe, SEM, TransAlta, TCPL

Evidence References:

1. G1/T1/p5
2. J3.28, J3.29, J6.52, J7.08, J14.83, J17.02

5.2 IS UNION’S COST ALLOCATION STUDY METHODOLOGY CHANGE TO ELIMINATE THE WEIGHTING OF CUSTOMER NUMBERS IN THE FACTOR USED TO ALLOCATE CUSTOMER-

**RELATED COSTS, AS DIRECTED BY THE BOARD IN ITS RP-2003-0063 DECISION
APPROPRIATE?**

(Complete Settlement)

The parties accept that Union's response to the Board's directive concerning the weighting of customer numbers in the factor used to allocate customer-related costs is reasonable.

The following parties agree with the settlement of this issue: CME, FONOM & the Cities, CCK, CCC, Energy Probe, IGUA, LPMA, OAPPA, SEC, VECC, WGSPG

The following parties take no position on this issue: Coral, EGD, LIEN, OESLP, Sithe, SEM, TransAlta, TCPL

Evidence References:

1. G1/T1/p18
2. J3.30, J3.31, J7.09, J14.83

**5.3 ARE UNION'S PROPOSED COST ALLOCATION STUDY METHODOLOGY CHANGES TO THE
ALLOCATION OF PRODUCER STATION COSTS TO THE M13 RATE CLASS APPROPRIATE?**

(Complete Settlement)

The parties accept that Union's proposed cost allocation study methodology changes to the allocation of M13 producer station costs are reasonable for the 2007 Test Year.

The following parties agree with the settlement of this issue: CME, FONOM & the Cities, CCC, Energy Probe, IGUA, LPMA, SEC, VECC, WGSPG

The following parties take no position on this issue: CCK, Coral, EGD, LIEN, OAPPA, OESLP, Sithe, SEM, TransAlta, TCPL

Evidence References:

1. G1/T1/p19

**5.4 ARE THE PROPOSED ALLOCATION FACTORS FOR GDAR COMPLIANCE COSTS
APPROPRIATE?**

(Complete Settlement)

The parties accept that Union's proposed allocation factors for GDAR compliance costs are reasonable for the 2007 Test Year.

The following parties agree with the settlement of this issue: CME, FONOM & the Cities, CCK, CCC, Energy Probe, IGUA, LPMA, OAPPA, SEC, VECC, WGSPG

The following parties take no position on this issue: Coral, EGD, LIEN, OESLP, Sithe, SEM, TransAlta, TCPL

Evidence References:

1. G1/T1/p20
2. J7.10, J17.03, J23.04, J25.04, J30.08, J30.09, J30.10, J30.12, J30.13

5.5 ARE UNION'S COST ALLOCATION STUDY METHODOLOGY CHANGES TO THE ALLOCATION OF TRANSMISSION FACILITIES COMPRESSOR FUEL APPROPRIATE?

(Complete Settlement)

The parties accept that Union's proposed cost allocation study methodology changes to the allocation of transmission facilities compressor fuel are reasonable.

The following parties agree with the settlement of this issue: CME, FONOM & the Cities, CCK, CCC, Energy Probe, IGUA, LPMA, OAPPA, SEC, VECC, WGSPG

The following parties take no position on this issue: Coral, EGD, LIEN, OESLP, Sithe, SEM, TransAlta, TCPL

Evidence References:

1. G1/T1/p21
2. J5.07, J30.11, J30.14

5.6 IS THE METHODOLOGY USED TO FUNCTIONALIZE, CLASSIFY AND ALLOCATE SYSTEM INTEGRITY SPACE APPROPRIATE?

(Complete Settlement)

The parties accept that this issue has been identified as an issue in the Natural Gas Electricity Interface Review proceeding (EB-2005-0551) and that the specific concerns regarding system integrity space allocation that have been raised in this proceeding are more appropriately

addressed in the EB-2005-0551 proceeding where evidence pertaining to the matter has now been filed by CCK. The parties agree that Union's interrogatory responses in this proceeding pertaining to this issue will be filed by Union and form part of the record in the EB-2005-0551 proceeding.

The following parties agree with the settlement of this issue: CME, FONOM & the Cities, CCK, CCC, Energy Probe, IGUA, LPMA, SEC, VECC, WGSPG

The following parties take no position on this issue: Coral, EGD, LIEN, OAPPA, OESLP, Sithe, SEM, TransAlta, TCPL

Evidence References:

1. D1/T1
2. J4.01, J4.02, J4.03, J4.04, J4.05, J4.06, J4.07, J4.08, J4.09, J4.10, J4.11, J5.03, J5.04, J5.08, J6.28 Corrected, J13.17, J14.45

6 RATE DESIGN (EXHIBIT H)

6.1 IS THE FULL SCHEDULE OF RATES AS PROPOSED IN EXHIBIT H3, TAB 2 APPROPRIATE?

(No Settlement)

There was no settlement on this issue.

Evidence References:

1. H3/T2
2. J5.01, J5.07, J5.09, J5.10, J9.01, J13.33, J14.33, J14.37, J14.52, J14.86, J17.04, J25.05, J25.08, J27.14, J30.01, J30.02, J30.07

6.2 IS THE PROPOSAL FOR SPLITTING THE M2 RATE CLASS INTO THE PROPOSED M1 AND M2 RATE STRUCTURES AND RATE LEVELS AND INCURRING THE ASSOCIATED COSTS (EFFECTIVE JANUARY 1, 2008) APPROPRIATE?

(No Settlement)

There was no settlement of this issue.

Evidence References:

1. H1/T1/p6
2. J1.68, J7.11, J14.87, J21.25, J21.26, J21.27, J21.28, J23.05

3. K21
4. L21.1 – L21.11

6.3 IS THE PROPOSAL TO INCREASE THE M2 AND RATE 01 MONTHLY CHARGE TO \$16 (EFFECTIVE JANUARY 1, 2007) APPROPRIATE?

(No Settlement)

There was no settlement on this issue.

Evidence References:

1. H1/T1/p14
2. J1.69, J1.70, J1.71, J1.72, J23.06, J29.33
3. K21

6.4 IS THE PROPOSAL TO ELIMINATE THE M6A SEASONAL RATE SCHEDULE APPROPRIATE?

(Complete Settlement)

The parties accept Union's proposal to eliminate the M6A seasonal rate schedule.

The following parties agree with the settlement of this issue: CME, FONOM & the Cities, CCK, CCC, Energy Probe, IGUA, LPMA, LIEN, SEC, VECC, WGSPG

The following parties take no position on this issue: Coral, EGD, OAPPA, OESLP, SEM, Sithe, TransAlta, TCPL

Evidence References:

1. H1/T1/p16

6.5 IS UNION'S PROPOSAL TO ELIMINATE THE RATE 16 INTERRUPTIBLE RATE SCHEDULE AND MODIFY THE RATE 25 INTERRUPTIBLE RATE SCHEDULE ACCORDINGLY APPROPRIATE? (H1T1/p17)

(Complete Settlement)

The parties accept Union's proposal to eliminate the Rate 16 interruptible rate schedule and modify the Rate 25 interruptible rate schedule accordingly. Union confirms that this will result in no adverse impacts on any existing customers served on Rate 25 or on any other rate classes as a result of the implementation of this proposal.

The following parties agree with the settlement of this issue: CME, FONOM & the Cities, CCC, Energy Probe, IGUA, LPMA, SEC, VECC, WGSPG

The following parties take no position on this issue: CCK, Coral, EGD, LIEN, OAPPA, OESLP, Sithe, SEM, TransAlta, TCPL

Evidence References:

1. H1/T1/p17

6.6 IS THE PROPOSAL TO MODIFY THE T1 RATE SCHEDULE TO ELIMINATE THE FUEL AND UFG CHARGE ON VOLUMES TRANSPORTED THROUGH DEDICATED FACILITIES, DIRECTLY CONNECTED TO A THIRD PARTY TRANSMISSION SYSTEM APPROPRIATE?

(Complete Settlement)

The parties accept Union's proposal to modify the T1 rate schedule.

The following parties agree with the settlement of this issue: CME, FONOM & the Cities, CCK, CCC, Coral, Energy Probe, IGUA, LPMA, SEC, TransAlta, VECC, WGSPG

The following parties take no position on this issue: EGD, LIEN, OAPPA, OESLP, Sithe, SEM, TCPL

Evidence References:

1. H1/T1/p22
2. J3.33, J3.34, J7.12, J25.06

6.7 IS THE PROPOSAL TO MODIFY THE M13 RATE STRUCTURE TO MAKE IT CONSISTENT WITH THE M16 RATE STRUCTURE APPROPRIATE?

(Complete Settlement)

The parties accept Union's proposal to modify the M13 rate structure to make it consistent with the M16 rate structure.

The following parties agree with the settlement of this issue: CME, FONOM & the Cities, CCC, Energy Probe, IGUA, LPMA, SEC, VECC, WGSPG

The following parties take no position on this issue: CCK, Coral, EGD, LIEN, OAPPA, OESLP, Sithe, SEM, TransAlta, TCPL

Evidence References:

1. H1/T1/p22
2. J1.73

6.8 IS UNION’S PROPOSAL FOR PRE-APPROVAL TO CHANGE RATES EFFECTIVE JANUARY 1, 2008 TO INCORPORATE THE PHASING IN OF GDAR COMPLIANCE COSTS APPROPRIATE?

(Complete Settlement)

The parties accept Union’s proposal for pre-approval to change rates effective January 1, 2008 to incorporate the \$1.726 million in revenue requirement for the phasing in of GDAR compliance costs is reasonable subject to any forecast capital cost variances being captured in the GDAR deferral account and capital cost forecast variances being subject to review when deferral account balances are disposed of.

The following parties agree with the settlement of this issue: CME, FONOM & the Cities, CCK, CCC, Energy Probe, IGUA, LPMA, LIEN, SEC, VECC, WGSPG

The following parties take no position on this issue: Coral, EGD, OAPPA, OESLP, Sithe, SEM, TransAlta, TCPL

Evidence References:

1. H1/T1/p21
2. J3.35, J3.36, J14.88, J21.29, J21.30

6.9 IS UNION’S PROPOSAL FOR CHANGES TO T1, T3, U2, U5, U7, U9, S1, RATE 20 AND RATE 100 UNAUTHORIZED STORAGE OVERRUN RATES APPROPRIATE?

(Complete Settlement)

The parties accept Union’s proposal for changes to T1, T3, U2, U5, U7, U9, S1, Rate 20 and Rate 100 unauthorized storage overrun rates.

The following parties agree with the settlement of this issue: CME, FONOM & the Cities, CCK, CCC, Energy Probe, IGUA, LPMA, SEC, VECC, WGSPG

The following parties take no position on this issue: Coral, EGD, LIEN, OAPPA, OESLP, Sithe, SEM, TransAlta, TCPL

Evidence References:

1. H1/T1/p21
2. J1.74, J1.75, J1.76, J5.11, J7.13, J17.05, J25.07

6.10 ARE THE TERMS AND CONDITIONS OF M12 AND C1 SERVICES, INCLUDING THE PROPOSED RATE SCHEDULE CHANGES, APPROPRIATE (EXCLUDING THE CONSIDERATION OF POTENTIAL NEW SERVICES FOR POWER PRODUCERS)?

(Complete Settlement)

The parties agree to the following modifications to the proposed terms and conditions of M12 and C1 services:

1. Union will post a standard M12 contract and any future changes to the standard contract on its website. Union will provide at least six months advance written notice to all M12 shippers of any changes to the standard contract, except in the case of changes made to the Conditions Precedent Section of the M12 Contract used for facility expansions. A copy of the standard contract is attached for information purposes as Appendix C.
2. Union will use the standard M12 contract as a benchmark for contracting purposes. Union is free to negotiate terms with customers that vary from the standard contract.
3. Existing M12 contracts will be grandfathered until the end of the initial contract term and upon extension or renewal will be moved to the standard contract. An existing M12 shipper may elect to move to the standard contract at any time.
4. Union will file with the Board all variations between the standard contract and new contracts on a contract specific basis before such new contracts come into effect. Union will file the variations directly with the Board and will promptly post this information on its website.
5. The M12 rate schedule provides: “The identified rates represent maximum prices for service. These rates may change periodically. Multi-year prices may also be negotiated, which may be higher than the identified rates”. It is the parties’ understanding of this section that parties wishing to contract for M12 service may do so at the Board approved rate. They may also negotiate a higher multi-year rate should they so choose.
6. The parties accept the general terms and conditions of the M12 rate schedule as provided in Appendix D. Union agrees that changes made to the terms and conditions of the M12 rate schedules will be applied to the terms and conditions of the C1 rate schedule where applicable for consistency. Additional changes to C1 Schedule B (Nominations) may be required to ensure alignment with the M12 Service.

7. In the event the Board approves this Settlement Agreement, Union will send a letter to the Board panel presiding over the NGEIR proceeding (supported by TCPL) providing for the following:
 1. Union agrees to amend the contracts of the Parties that bid a premium in the 2006 and 2007 open seasons to remove the premium. These customers would then pay the posted M12 toll only. This would reduce Union's revenue forecast for 2007 by \$150,000.
 2. Union agrees to develop, prior to its next open season, an allocation procedure which defines the criteria by which Union will allocate long term firm transportation capacity for expansion, promptly post it on its web site, and notify shippers of any changes six months in advance.
 3. Union will include in its allocation procedure or otherwise, a requirement that Union identify in its open season documents any anticipated capacity constraints, if a constraint is expected, and
 4. Union agrees to not use bid premium as a criterion for allocating long term firm transportation capacity in the future.

The parties accept all other proposed changes to the M12 and C1 rate schedules as proposed in Union's application.

The following parties agree with the settlement of this issue: CME, FONOM & the Cities, CCK, CCC, EGD, Energy Probe, IGUA, LPMA, SEC, Sithe, TransAlta, TCPL, WGSPG

The following parties take no position on this issue: Coral, LIEN, OAPPA, OESLP, SEM, VECC

Evidence References:

1. H1/T2
2. J1.77, J7.14, J9.02, J22.01, J22.02, J22.03, J22.04, J25.08, J27.15, J27.16, J27.17, J27.18, J27.19, J27.20, J27.21, J27.22, J27.23, J27.24, J27.25, J27.26, J27.27, J27.28, J27.29

6.11 IS UNION'S PROPOSAL FOR APPROVAL OF CHANGES TO THE DIRECT PURCHASE ADMINISTRATION CHARGE (DPAC) TO \$72.50 PER MONTH AND \$0.24 PER CUSTOMER APPROPRIATE?

(Complete Settlement)

The parties accept that Union's current DPAC charges of \$75.00 per month per contract and \$0.19 per customer per month should be maintained. The parties accept that the projected 2007 revenue shortfall of \$254,000 shall be collected from in-franchise customers through delivery charges when setting 2007 rates pursuant to this Agreement. The settlement is made with the

expectation that the Board intends to review system supply and direct purchase cost allocation issues in a future proceeding as set out in the Board's NGF Report.

The following parties agree with the settlement of this issue: CME, FONOM & the Cities, CCK, CCC, Energy Probe, IGUA, LPMA, OAPPA, OESLP, SEC, SEM, VECC, WGSPG

The following parties take no position on this issue: Coral, EGD, LIEN, Sithe, TransAlta, TCPL

Evidence References:

1. H1/T3
2. J1.78, J14.85, J18.10, J18.11, J18.12, J18.13

7 OTHER ISSUES

7.1 RELIEF FROM UNDERTAKINGS. IS UNION'S PROPOSAL TO CONTINUE TO SELL GAS TO CONSUMERS APPROPRIATE?

(Complete Settlement)

The parties accept Union's proposal to continue to sell gas commodity to system sales service customers at Board approved commodity rates and to provide Discretionary Gas Supply Service ("DGSS") to customers as approved by the Board in its RP-2003-0063 Reasons for Decision.

Parties' agreement to this issue in this proceeding is without prejudice to any position they may wish to take on the issue in any future proceeding.

The following parties agree with the settlement of this issue: CME, FONOM & the Cities, CCK, CCC, Coral, Energy Probe, IGUA, LPMA, LIEN, SEC, TCPL, VECC, WGSPG

The following parties take no position on this issue: EGD, OAPPA, OESLP, Sithe, SEM, TransAlta, TCPL

Evidence References:

1. A1/T3/S1
2. J7.15, J23.08

7.2 DID THE SALE OF CUSHION GAS CAUSE UNION TO INCUR INCREASED CAPITAL EXPENDITURES AND/OR COSTS IN 2007, AND IF SO, ARE THE CAPITAL EXPENDITURES AND/OR COSTS CAUSED BY THE 2004 CUSHION GAS SALE APPROPRIATELY INCLUDED IN 2007 RATES?

(Complete Settlement)

As described in Sections 1.1/1.3 and 3.3 above, the parties have achieved a complete settlement of the recovery of rate base and O&M costs for 2007. Accordingly, intervenors agree that, with the specific and global adjustments agreed upon in these areas, there are no 2007 cost consequences adverse to customers resulting from the 2004 sale of cushion gas. Union agreed to the above referenced adjustments specifically without prejudice to its position (based on the evidence filed) that there were, in any event (i.e., in spite of any rate base or O&M reductions) no adverse cost consequences to customers in 2007, or in any other year, resulting from the 2004 sale of cushion gas. Union reserves all its rights in this regard. Intervenors reserve the right to contend that sales of cushion gas may cause harm to customers in years other than 2007. The parties' agreement to the settlement of rate base, O&M and this issue, 7.2, is without prejudice to their positions on the manner in which the revenues from Union's sale of any of its cushion gas should be treated for regulatory purposes. If at some future point in time, Union proceeds with its Dawn Dehydration Modification project and seeks recovery of any related costs in future rates, then the parties to this Agreement may, if so advised, contend that the costs of the project evidence harm to ratepayers resulting from Union's sale of cushion gas.

The following parties agree with the settlement of this issue: CME, FONOM & the Cities, CCK, CCC, Energy Probe, IGUA, LPMA, LIEN, SEC, VECC, WGSPG

The following parties take no position on this issue: Coral, EGD, OAPPA, OESLP, Sithe, SEM, TransAlta, TCPL

Evidence References:

1. J5.12, J13.34, J14.84, J29.34

7.3 IS THE PROCESS USED BY UNION TO DEVELOP AND DISCLOSE STANDARD POLICIES AND PROCEDURES WHICH IMPACT THE PROVISION OF SERVICES TO CUSTOMERS APPROPRIATE?

(Complete Settlement)

With the assistance of the External Policy team comprised of interested stakeholders, Union undertakes to use its best efforts to complete the review process for the policies noted in the table below. The review process for listed policies other than those “to be developed” is to be completed by the end of 2006. Policies to be developed shall be completed as soon as possible thereafter, but not later than September 30, 2007. Union undertakes to publish the policies on its website upon completion of the review and development process.

Policies Developed with External Policy Team	Draft sent for External comment in 2005	Up for Review in 2006	Under Development	To be Developed
Customer Complaint			X	
Incremental Gas Supply		X		
Vertical Slice (2 policies)		X		
Obligated DCQ (2 policies)		X		
Priority of Service		X		
Return to System Sales		X		
TCPL Turnback	X			
Temporary Change of Obligated Receipt Point		X		
Upstream Assignment	X			
Upstream Capacity Clearing House	X			
Authorization Policy (1)				X
Interruptible Service				X
Asset Disposition				X

Note: (1) This policy would address the non-discriminatory criteria and protocols used by Union to authorize changes to daily volumes and receipt / delivery points by direct purchase customers to the extent those criteria and protocols are not covered by other published policies.

The following parties agree with the settlement of this issue: CME, FONOM & the Cities, CCK, CCC, Energy Probe, IGUA, LPMA, LIEN, OAPPA, SEC, TCPL, VECC, WGSPG

The following parties take no position on this issue: Coral, EGD, OESLP, Sithe, SEM, TransAlta

Evidence References:

1. J5.13, J25.08

APPENDIX "A"

Union Gas Limited 2007 Rate Case EB-2005-0520

ISSUES LIST

1 RATE BASE (Exhibit B)

- 1.1 Is the proposed total Capital Expenditures forecast for 2007 appropriate? (B1/T1,T2)
- 1.2 Were Capital Expenditures for 2005 and 2006 prudent in view of the fact that not all amounts received OEB scrutiny? (B1/T1,T2)
- 1.3 Is the amount proposed for Rate Base in 2007 appropriate? (B1/T1)
- 1.4 Were amounts closed (or proposed to be closed) to Rate Base in 2005 and 2006 prudently incurred in view of the fact that not all amounts received OEB scrutiny? (B1/T1,T2)
- 1.5 Is the proposed forecast of new customer attachments for 2007 appropriate in view of economic trends and recent years experience? (B1/T3)
- 1.6 Is the increase to the 2007 Rate Base resulting from the updated Lead-Lag study appropriate? (B1/T8)

2 OPERATING REVENUE (Exhibit C)

- 2.1 Is the proposed 2007 General Service Demand Forecast appropriate? (C1/T1)
- 2.2 Is Union correctly implementing the Board's directive for a blended weather normalization methodology (RP-2003-0063 para 2.2)? (C1/T1/p10)
- 2.3 Is the proposed 2007 Contract Demand Forecast appropriate? (C1/T2)
- 2.4 Is the proposed total 2007 Storage and Transportation (S&T) Revenue Forecast appropriate? (C1/T3)
- 2.5 Is the proposed total 2007 Other Revenue Forecast appropriate given that it represents a decrease from the 2005 estimate? (C1/T4)

3 COST OF SERVICE (Exhibit D)

- 3.1 Is the proposed 2007 Gas Supply Expenses Forecast appropriate? (D1/T1, D3/T2/S1)
- 3.2 Is Union correctly implementing the Board's directives from the RP-2003-0063 Decision on Northern Storage Allocations and Load Balancing (RP-2003-0063 p 69, 121,122)? (D1/T1/p9)
- 3.3 Is the overall level of the 2007 O&M budget appropriate, given that it represents an increase over the last approved Board forecast (2004)? (D1/T2)
- 3.4 Is the increase in Human Resources related costs appropriate? (D1/T2/p2,T3)

- 3.5 Is the proposed 2007 amount to be recovered in Affiliate Services appropriate? (D1/T2/p3/T8)
- 3.6 Is the increase in Customer Growth related costs appropriate? (D1/T2/p4)
- 3.7 Is the assumption for Inflation related cost increases appropriate? (D1/T2/p4)
- 3.8 Is the increase in Regulatory and OEB related costs appropriate? (D1/T2/p5)
- 3.9 Is the increase in Bad Debt related costs appropriate? (D1/T2/p5)
- 3.10 Is the increase in Integrity Management Program (IMP) cost appropriate? (D1/T2/p7)
- 3.11 Is the increase in Capitalized Overheads appropriate, including the KPMG Report and a consideration of the proposed new cost drivers? (D1/T2/p7,D2/T1)
- 3.12 Is Union's proposal to continue, or discontinue, deferral accounts for the 2007 test year appropriate? (D1/T5)
- 3.13 Appropriateness of Union's GDAR related costs in order to be GDAR compliant by January 1, 2008. (D1/T6)
- 3.14 Are the increases in Union's 2007 forecast of Property, Capital and Income Taxes and the Tax normalization proposal appropriate?(D1/T4)
- 3.15 Is the proposed 24-Month Fixed Cost Purchase Plan appropriate? (D1/T1/p16)
- 3.16 Appropriateness of the Gas Cost Risk Management program. (D1/T1/p15)

4 COST OF CAPITAL (Exhibit E)

- 4.1 Is the proposal to establish the 2007 Return on Equity (ROE) using the Board's ROE Guidelines, updated to reflect the October 2006 Consensus Forecast, appropriate? (E1/T1)
- 4.2 Are Union's proposals for the cost rates for its debt and preference share components of its capital structure appropriate? (E1/T1/p10)
- 4.3 Is the proposal to change the existing capital structure, increasing Union's deemed common equity component from 35% to 40% appropriate? (E1/T1/p2)

5 COST ALLOCATION (Exhibit G)

- 5.1 Is Union's proposed harmonization of cost allocation methodologies in the Northern and Eastern Operations area and the Southern Operations area, as directed by the Board in its RP-2003-0063 Decision appropriate? (G1/T1/p5)
- 5.2 Is Union's Cost Allocation Study methodology change to eliminate the weighting of customer numbers in the factor used to allocate customer-related costs, as directed by the Board in its RP-2003-0063 Decision appropriate? (G1/T1/p18)
- 5.3 Are Union's proposed Cost Allocation Study methodology changes to the allocation of producer station costs to the M13 rate class appropriate? (G1/T1/p19)
- 5.4 Are the proposed allocation factors for GDAR compliance costs appropriate? (G1/T1/p20)

- 5.5 Are Union's Cost Allocation Study methodology changes to the allocation of transmission facilities compressor fuel appropriate? (G1/T1/p21)
- 5.6 Is the methodology used to functionalize, classify and allocate system integrity space appropriate?

6 RATE DESIGN (Exhibit H)

- 6.1 Is the full schedule of rates as proposed in Exhibit H3, Tab 2 appropriate?
- 6.2 Is the proposal for splitting the M2 rate class into the proposed M1 and M2 rate structures and rate levels and incurring the associated costs (effective January 1, 2008) appropriate? (H1/T1/p6)
- 6.3 Is the proposal to increase the M2 and Rate 01 monthly charge to \$16 (effective January 1, 2007) appropriate? (H1/T1/p14)
- 6.4 Is the proposal to eliminate the M6A seasonal rate schedule appropriate? (H1/T1/p16)
- 6.5 Is Union's proposal to eliminate the Rate 16 interruptible rate schedule and modify the Rate 25 interruptible rate schedule accordingly appropriate? (H1/T1/p17)
- 6.6 Is the proposal to modify the T1 rate schedule to eliminate the fuel and UFG charge on volumes transported through dedicated facilities, directly connected to a third party transmission system appropriate? (H1/T1/p19)
- 6.7 Is the proposal to modify the M13 rate structure to make it consistent with the M16 rate structure appropriate? (H1/T1/p22)
- 6.8 Is Union's proposal for pre-approval to change rates effective January 1, 2008 to incorporate the phasing in of GDAR compliance costs appropriate? (H1/T1/p26)
- 6.9 Is Union's proposal for changes to T1, T3, U2, U5, U7, U9, S1, Rate 20 and Rate 100 unauthorized storage overrun rates appropriate? (H1/T1/p21)
- 6.10 Are the terms and conditions of M12 and C1 services, including the proposed rate schedule changes, appropriate (excluding the consideration of potential new services for power producers)? (H1/T2)
- 6.11 Is Union's proposal for approval of changes to the Direct Purchase Administration Charge (DPAC) to \$72.50 per month and \$0.24 per customer appropriate? (H1/T3)

7 OTHER ISSUES

- 7.1 Relief from Undertakings. Is Union's proposal to continue to sell gas to consumers appropriate? (A1/T3/S1)
- 7.2 Did the sale of cushion gas cause Union to incur increased capital expenditures and/or costs in 2007, and if so, are the capital expenditures and/or costs caused by the 2004 cushion gas sale appropriately included in 2007 rates?
- 7.3 Is the process used by Union to develop and disclose standard policies and procedures which impact the provision of services to customers appropriate?

Incremental Transportation Contracting Analysis

Union will provide an Incremental Transportation Contracting Analysis for any new or extensions to existing upstream transportation contracts with a term of one year or longer that will form part of Union's sales service gas supply arrangements. This analysis will not be provided for pre-existing contracts that have one year renewal provisions. This analysis will be provided as part of Union's evidence in the applicable Board proceeding in which it seeks recovery of the cost consequences associated with the new upstream transportation contract.¹

The Incremental Transportation Contracting Analysis will include:

- Union's rationale for entering into the new transportation contract.
- All relevant transportation contract parameters including: transportation provider, term, price, receipt and delivery point.
- A quantitative comparison of the landed costs for newly contracted capacity to alternatives reviewed by Union at the time of its decision in the form attached.
- A quantitative and/or qualitative consideration of additional factors considered relevant by Union that may include, but not be limited to:
 - Overall security of supply
 - Supply basin diversity
 - Contract term diversity
 - Pipeline operator diversity
 - Pipeline terms and conditions, and record of service
 - Monthly demand charge/commodity charge structure.

¹ Although the format or content may be similar, provision of this analysis is separate from any future application Union may make to the Board for "pre-approval" of a long-term transportation contract as contemplated in the Natural Gas Forum process.

Transportation Analysis									
Route	Point of Supply	Basis Differential	Supply Cost	Unitized Demand Charge	Commodity Charge	Fuel Charge	100% LF Transportation Charge	Landed Cost	Point of Delivery
(A)	(B)	(C)	(D) = Nymex + C	(E)	(F)	(G)	(H) = E + F + G	(I) = D + H	(J)
Alternative 1									
Alternative 2									
Alternative 3									
Alternative 4									
Alternative 5									
Assumptions:									
	Foreign Exchange								
	Energy Conversions								
	Nymex Futures								
	Fuel Ratios								
	Effective Date of Transportation Tolls								

Contract No. M12xxx

FIRM TRANSPORTATION CONTRACT

(TO)

BETWEEN

UNION GAS LIMITED

AND

(SHIPPER)

DATED Month, Day, Year

Schedule 1 Points and Receipt and Delivery Pressures

FIRM
TRANSPORTATION CONTRACT
(TO)

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SCHEDULE 1	RECEIPT AND DELIVERY PRESSURES

THIS FIRM TRANSPORTATION CONTRACT dated as of the [redacted] day of **Month, 20__**,

BETWEEN:

UNION GAS LIMITED, a company existing under the laws of the Province of Ontario,
(hereinafter referred to as “Union”)

- and -

[redacted], a company incorporated under the laws of the (Province, State, Country) of [redacted],
(hereinafter referred to as “Shipper”)

WHEREAS, Union owns and operates a natural gas transmission system in southwestern Ontario, through which Union offers “Transportation Services”, as defined in Article V herein;

AND WHEREAS, Shipper wishes to retain Union to provide such Transportation Services, as set out herein, and Union has agreed, subject to the terms and conditions of this Contract, to provide the Transportation Services requested;

NOW THEREFORE, this Contract witnesses that, in consideration of the mutual covenants and agreements herein contained and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereby agree as follows:

ARTICLE I - INTERPRETATION AND DEFINITIONS

1.01 Divisions, Headings and Index: The division of this Contract into Articles, Sections and Subsections, and the insertion of headings and any table of contents or index provided are for convenience of reference only, and shall not affect the construction or interpretation hereof.

1.02 Industry Usage: Words, phrases or expressions which are not defined herein and which, in the usage or custom of the business of the transportation, storage, and distribution or sale of natural gas have an accepted meaning shall have that meaning.

1.03 Extended Meaning: Unless the context otherwise requires, words importing the singular include the plural and vice versa, and words importing gender include all genders. The words “herein” and “hereunder” and words of similar import refer to the entirety of this Contract, including the Schedules incorporated into this Contract, and not only to the Section in which such use occurs.

1.04 Conflict: In the event of any conflict between the provisions of this Contract and Union’s M12 Rate Schedule, as defined below, the provisions of Union’s M12 Rate Schedule shall prevail over this Contract.

1.05 Measurements: Units set out in SI (metric) measurement are the governing units for the purpose of this Contract. Units set out in Imperial measurement in parentheses beside their SI (metric) equivalent are for reference only and in the event of a conflict between SI (metric) and Imperial measurement herein, SI (metric) shall prevail.

1.06 Currency: All reference to dollars in this Contract shall mean Canadian dollars.

1.07 Schedules: Refers to the schedules attached hereto which are specifically included as part of this Contract, and include:

Schedule 1- Points and Receipt and Delivery Pressures

1.08 Rate Schedule: "Union's M12 Rate Schedule" or the "M12 Rate Schedule" or "M12" shall mean Union's M12 Rate Schedule, (including the Storage and Transportation Rates, Schedule "A" (General Terms and Conditions), Schedule "B", and Schedule "C", or such other replacement rate schedule which may be applicable to the Transportation Services provided hereunder as approved by the Ontario Energy Board, and shall apply hereto, as amended from time to time, as if incorporated into this Contract.

1.09 Definitions: Capitalized terms and certain other terms used in this Contract and not specifically defined shall have the meaning set forth in Union's M12 Rate Schedule unless the context hereof otherwise clearly requires. The following definitions shall be read and interpreted as though included in the aforementioned:

(a) "Authorized Overrun" shall mean the amount by which Shipper's Authorized Quantity exceeds the Contract Demand.

(b) "Contract Year" shall mean a period of three hundred and sixty-five (365) consecutive days provided however, that any such period which contains a date of February 29 shall consist of three hundred and sixty-six (366) consecutive days) commencing on November 1 of each year; except for the first Contract Year which shall commence on the Commencement Date and end on the first October 31 that follows such date.

ARTICLE II

Intentionally blank

ARTICLE III - CONDITIONS PRECEDENT

3.01 The obligations of Union to provide Transportation Services hereunder are subject to the following conditions precedent, which are for the sole benefit of Union and which may be waived or extended in whole or in part in the manner provided in this Contract:

(a) Union shall have obtained, in form and substance satisfactory to Union, and all conditions shall have been satisfied under, for all governmental, regulatory and other third party approvals, consents, orders and authorizations, that are required to:

- i) provide the Transportation Services; and,
- ii) construct any facilities necessary to provide the Transportation Services (the "Expansion Facilities"); and,

(b) Union shall have obtained all internal approvals that are necessary or appropriate to:

- i) provide the Transportation Services; and,
- ii) construct the Expansion Facilities; and,

- (c) Union shall have completed and placed into service the Expansion Facilities ; and,
- (d) Union shall have received from Shipper the requisite financial assurances reasonably necessary to ensure Shipper’s ability to honour the provisions of this Contract (the “Initial Financial Assurances”). The Initial Financial Assurances, if required, will be as determined solely by Union; and,
- (e) Union shall have received from Shipper an executed Financial Backstopping Agreement, in form and substance reasonably acceptable to the parties; and,
- (f) Shipper and Union shall have entered into the Limited Balancing Agreement or Interruptible HUB Service Contract (the “Facilitating Agreement”) with Union.

3.02 The obligations of Shipper hereunder are subject to the following conditions precedent, which are for the sole benefit of Shipper and which may be waived or extended in whole or in part in the manner provided in this Contract:

- (a) Shipper shall, as required, have entered into the necessary contracts with Union and/or others to facilitate the Transportation Services contemplated herein, including contracts for upstream and downstream transportation, and shall specifically have an executed and valid Facilitating Agreement; and shall, as required, have entered into the necessary contracts to purchase the gas quantities handled under this Contract; and,
- (b) Shipper shall have obtained, in form and substance satisfactory to Shipper, and all conditions shall have been satisfied under, all governmental, regulatory and other third party approvals, consents, orders and authorizations, that are required from federal, state, or provincial authorities for the gas quantities handled under this Contract; and,
- (c) Shipper shall have obtained all internal approvals that are necessary or appropriate for the Shipper to execute this Contract.

3.03 Union and Shipper shall each use due diligence and reasonable efforts to satisfy and fulfil the conditions precedent specified in Section 3.01(a), (c), (d), (e), (f) and Section 3.02(a) and (b). Each party shall notify the other forthwith in writing of their respective satisfaction or waiver of each condition precedent for such party’s benefit. If a party concludes that it will not be able to satisfy a condition precedent that is for its benefit, such party may, upon written notice to the other party, terminate this Contract and upon the giving of such notice, this Contract shall be of no further force and effect and each of the parties shall be released from all further obligations hereunder.

3.04 If any of the conditions precedent in 3.01 (d) or 3.02 are not satisfied or waived by the party entitled to the benefit of that condition by *Month, Day, Year*, then either party may, upon written notice to the other party, terminate this Contract and upon the giving of such notice, this Contract shall be of no further force and effect and each of the parties shall be released from all further obligations hereunder, provided that any rights or remedies that a party may have for breaches of this Contract prior to such termination and any liability a party may have incurred before such termination shall not thereby be released.

ARTICLE IV - TERM OF CONTRACT

4.01 This Contract shall be effective as of the date of execution hereof; however, the Transportation Service obligations, terms and conditions hereunder shall commence on the later of:

- (a) *Month, Day, Year* (the “Reference Date”); and
- (b) the day following the date that all of the conditions precedent set out in Sections 3.01 and 3.02 have been satisfied or waived by the party entitled to the benefit thereof;

(such later date being referred to as the “Commencement Date”), and shall continue in full force and effect until *Month, Day, Year* (the “Initial Term”).

4.02 If this Contract requires Expansion Facilities to satisfy any Transportation Service,

- (a) then to the extent that such Expansion Facilities are only partially completed and placed in service by the Reference Date or at any time thereafter, then any firm capacity available on such partially completed Expansion Facilities (the “Partial Expansion Capacity”) will be allocated in accordance with this Section 4 to all Contracts: (a) which require the same Expansion Facilities for the Contract Demand; and (b) under which all conditions precedent have been satisfied or waived except for such conditions precedent that relate to the completion and placing in-service of the Expansion Facilities.
- (b) Such allocation shall be made in priority of the “Contract Value”, such that the Contract with the greatest Contract Value is allocated the entirety of the Contract Demand under such Contract, the Contract with the next greatest Contract Value is allocated the entirety of the Contract Demand under that Contract, and so forth until all the Partial Expansion Capacity has been allocated; provided that if there remains Partial Expansion Capacity that is less than the entirety of the Contract Demand under a Contract, then such Contract shall only receive such lesser remaining Partial Expansion Capacity. If any two or more Contracts have an equivalent Contract Value and insufficient Partial Expansion Capacity remains to satisfy all such Contracts, then the remaining Partial Expansion Capacity will be allocated pro-rata based on the contract demand among all such Contracts. For purposes of this Section, “Contract Value” means an amount determined by calculating the monthly demand charges per GJ (as determined in accordance with Section 8.01) multiplied by the Initial Term in months.
- (c) If, pursuant to this Section, a Contract is allocated any portion of Partial Expansion Capacity, then the conditions precedent that relate to the completion and placing in-service of the Expansion Facilities shall be deemed to have been waived such that the Initial Term under the Contract will commence. If a Contract is not allocated the entirety of the Contract Demand under such Contract, then such Contract Demand shall be deemed to be such lower allocated amount (and for greater certainty, the Initial Term shall nevertheless be deemed to have commenced) until such time as the Contract is allocated additional Partial Expansion Capacity pursuant to this Section or until the entirety of the Expansion Facilities are completed and placed in-service.
- (d) The procedure contemplated by this Section will be applicable from time to time on each occasion that the Expansion Facilities are incrementally completed and placed in service.

4.03 This Contract will continue in full force and effect beyond the Initial Term, automatically renewing for a period of one (1) year, and every one (1) year thereafter, subject to notice in writing by Shipper of termination at least two (2) years prior to the expiration thereof.

4.04 For the purpose of completing a final determination of the actual quantities of gas handled in any of the Transportation Services to Shipper, the parties shall have the right to amend their statements

for a period equal to the time during which the Interconnecting Pipeline retains the right to amend their statements, which period shall not exceed three (3) years from the date of termination of this Contract.

ARTICLE V - TRANSPORTATION SERVICES

5.01 Transportation Services: Union shall, on a firm basis and subject to the terms and conditions herein, transport Shipper's gas on Union's system (the "Transportation Services"). Shipper agrees to the following upon nomination to Union for the provision of the Transportation Services:

(a) Contract Demand:

Union shall transport, on a firm basis, a quantity of gas on any one day, of up to _____ GJ (_____ MMBtu) (the "Contract Demand").

(b) Receipt and Delivery Point:

i) "Receipt Point" shall mean the point(s) where Union shall receive gas from Shipper as follows:

- Point 1
- Point 2

ii) "Delivery Point" shall mean the point(s) where Union shall deliver gas to Shipper as follows:

- Point 1
- Point 2

which points are more particularly described in Schedule 1.

(c) Gas Transported by Union:

i) Union agrees, on any day, and subject to Sections 5.01 (c) ii) and (c) iii), to receive on Shipper's behalf at the Receipt Point, any quantity of gas which Shipper nominates and which Union has authorized for Transportation Service and to deliver that quantity of gas to Shipper at the Delivery Point;

ii) Under no circumstances shall Union be required to transport a quantity of gas in excess of the Contract Demand; and,

iii) Union agrees that it shall, upon the request of Shipper, use reasonable efforts to transport gas in excess of the Contract Demand, on an interruptible basis.

(d) Fuel:

Shipper shall provide the fuel requirements per the M12 Rate.

5.02 Accounting for Transportation Services: All quantities of gas delivered to/by Union shall be accounted for on a daily basis.

5.03 Commingling: Union shall have the right to commingle the quantity of gas referenced herein with gas owned by Union or gas being stored and/or transported by Union for third parties.

5.04 Imbalances: The parties hereto recognize that with respect to Section 5.01, on any day, receipts of gas by Union and deliveries of gas by Union may not always be exactly equal, but each party

shall cooperate with the other in order to balance as nearly as possible the quantities transacted on a daily basis, and any imbalances arising shall be allocated to the Facilitating Agreements and shall be subject to the respective terms and charges contained therein, and shall be resolved in a timely manner.

ARTICLE VI - FORCE MAJEURE

6.01 An event of force majeure on Union's system will excuse the failure to deliver gas by Union or the failure to accept gas by Union hereunder, and both parties shall be excused from performance of their obligations hereunder, except for payment obligations, to the extent of and for the duration of the force majeure.

6.02 Upstream or Downstream Force Majeure: An event of force majeure upstream or downstream of Union's system shall not relieve Shipper of any payment obligations.

6.03 Delay of Firm Transportation Services: Despite Section 6.02, if Union is prevented, by reason of an event of force majeure on Union's system from delivering gas on the day or days upon which Union has accepted gas from Shipper, Union shall thereafter make all reasonable efforts to deliver such quantities as soon as practicable and on such day or days as are agreed to by Shipper and Union. If Union accepts such gas on this basis, Shipper shall not receive any demand charge relief as contemplated under Section 6.04 herein.

6.04 Demand Charge Relief for Firm Transportation Services: Despite Section 6.02, if on any day Union fails to accept gas from Shipper by reason of an event of force majeure on Union's system and fails to deliver the quantity of gas nominated hereunder by Shipper up to the Contract Demand, then for that day the monthly demand charge shall be reduced by an amount equal to the applicable Daily Demand Rate, as defined in this paragraph, multiplied by the difference between the quantity of gas actually delivered by Union during such day and the quantity of gas which Shipper in good faith nominated on such day. The term "Daily Demand Rate" shall mean the monthly demand charge or equivalent (as stipulated in Section 8) divided by the number of days in the month for which such rate is being calculated.

6.05 If due to the occurrence of an event of force majeure as outlined above, the capacity for gas deliveries by Union is impaired, making it necessary for Union to curtail Shipper's gas receipts to Union hereunder, then Union agrees that the Contract Demand for Transportation Service under this Contract shall be combined with the firm contract demand set out in other Union contracts then in effect with Union's customers utilizing such facilities as well as quantities set out in Union's peak day requirements for such facilities, and Shipper's service entitlement during such period of impairment, shall be pro rated. This pro rationing shall be determined by multiplying the daily capability of such facilities, as available downstream of the impairment, by a fraction, the numerator of which is Shipper's Contract Demand and the denominator of which is the total of all such firm contract demands, including the Contract Demand hereunder and Union's said peak day requirements downstream of the impairment. For the purposes of this Section, firm contract demand shall mean all firm services provided by Union, including firm service under Rate Schedules M2, M4, M5A, M6A, M7, M9, M10, M12, C1, T1, T3, U2, U5, and U7, plus any new firm service that may be created in the future.

ARTICLE VII – SERVICE CURTAILMENT

7.01 Capacity Sharing: Where requests for interruptible Transportation Services hereunder exceed the capacity available for such Transportation Services, Union will accept nominations from shippers and allocate capacity in the order of pricing for Transportation Services and prior quantities

moved, and shippers shall be so advised. Any interruptible services provided herein are subordinate to any and all firm services supplied by Union.

7.02 Capacity Procedures: Union reserves the right to change its procedures for sharing interruptible capacity and will provide Shipper with two (2) months prior notice of any such change.

7.03 Maintenance: Union's facilities from time to time may require maintenance or construction. If such maintenance or construction is required, and in Union's sole opinion, acting reasonably, such maintenance or construction may impact Union's ability to meet Shipper's requirements, Union shall provide at least ten (10) days notice to Shipper, except in the case of an emergency. In the event the maintenance impacts on Union's ability to meet Shipper's requirements, Union shall not be liable for any damages and shall not be deemed in breach of this Contract.

To the extent that Union's ability to accept and/or deliver Shipper's gas is impaired, the monthly demand charge shall be reduced in accordance with Section 6.04 and available capacity allocated in accordance with Section 6.05 herein.

Union shall use reasonable efforts to determine a mutually acceptable period during which such maintenance or construction will occur and also to limit the extent and duration of any impairments. Union will endeavour to schedule and complete the maintenance and construction, which would normally be expected to impact on Union's ability to meet Shipper's requirements, during the period from April 1 through to November 1.

ARTICLE VIII - CHARGES AND RATES

8.01 Except as otherwise stated herein, the charges and rates to be billed by Union and paid by Shipper for the Transportation Services provided under this Contract will be those specified in Union's M12 Rate Schedule. Union will invoice Shipper the M12 charges and rates plus a monthly demand charge of \$xxx/GJ (if applicable).

8.02 In addition to the charges and rates, Shipper is responsible for any applicable Goods and Services Tax or other taxes, royalties or levies imposed currently or subsequent to the commencement of this Contract.

8.03 Set Off: If either party shall, at any time, be in arrears under any of its payment obligations to the other party, then the party not in arrears shall be entitled to reduce the amount payable by it to the other party in arrears under the Contract, or any other contract, by an amount equal to the amount of such arrears or other indebtedness to the other party. In addition to the foregoing remedy, Union may, upon forty-eight (48) hours verbal notice, to be followed by written notice, take possession of any or all of Shipper's gas under this Contract and any enhancements to this Contract, which shall be deemed to have been assigned to Union, to reduce such arrears or other indebtedness to Union.

ARTICLE IX - PRESSURES

9.01 Schedule 1 of this Contract shall govern receipt and delivery pressures which may be revised from time to time by Union upon written notice to Shipper. Under no circumstances shall Union be obligated to receive or deliver gas hereunder at pressures exceeding the maximum allowable operating pressures prescribed under any applicable governmental regulations; nor shall Union be required to make any physical deliveries or to accept any physical receipts which its existing facilities cannot accommodate.

ARTICLE X - QUALITY AND MEASUREMENT

10.01 For Transportation Services provided pursuant to Section 5 hereof:

(a) The quality of the gas and the measurement of the gas to be received by Union hereunder is to be of a merchantable quality and in accordance with the quality standards and measurement standards as set out by Union in the M12 Rate Schedule, but, Union will also accept gas of a quality as set out in any other Interconnecting Pipeline's general terms and conditions, provided that all Interconnecting Pipelines accept such quality of gas. In addition to any other right or remedy of a party, each party shall be entitled to refuse to accept delivery of any gas which does not conform to any of the specifications set out in Union's M12 Rate Schedule.

(b) Upon request by Union, Shipper shall obtain measurement of the total quantity of gas received by Union hereunder from the Interconnecting Pipeline. Such measurement shall be done in accordance with established practices between Union and the Interconnecting Pipeline.

10.02 In the event of an error in metering or a meter failure, (such error or failure being determined through check measurement by Union or any other available method), then Shipper shall enforce its rights as Shipper with the Interconnecting Pipeline(s) to remedy such error or failure including enforcing any inspection and/or verification rights and procedures .

ARTICLE XI - NOMINATIONS

11.01 Services provided hereunder shall be in accordance with the prescribed nominations procedure as set out in Schedule "B" of Union's M12 Rate Schedule.

ARTICLE XII - SHIPPER'S REPRESENTATIONS AND WARRANTIES

12.01 Shipper's Warranty: Shipper warrants that it will, if required, maintain, or have maintained on its behalf, all external approvals including the governmental, regulatory, import/export permits and other approvals or authorizations that are required from any federal, state or provincial authorities for the gas quantities to be handled under this Contract. Shipper further warrants that it shall maintain in effect the Facilitating Agreements.

12.02 Financial Representations: Shipper represents and warrants that the financial assurances (including the Initial Financial Assurances and Security) (if any) shall remain in place throughout the term hereof, unless Shipper and Union agree otherwise. Shipper shall notify Union in the event of any changes to the financial assurances throughout the term hereof. Should Union have reasonable grounds to believe that Shipper will not be able to perform or continue to perform any of its obligations under this Contract as a result of one of the following events ("Material Event");

- (a) Shipper is in default, which default has not been remedied, of this Contract or is in default of any other material contract with Union or another party; or,
- (b) Shipper's corporate or debt rating falls below investment grade according to at least one nationally recognized rating agency; or,
- (c) Shipper ceases to be rated by a nationally recognized agency; or,

(d) Shipper has exceeded credit available as determined by Union from time to time,

then Shipper shall within fourteen (14) days of receipt of such written notice by Union, obtain and provide to Union a letter of credit or other security in the form and amount reasonably required by Union (the "Security"). The Security plus the Initial Financial Assurances shall not exceed twelve (12) months of monthly demand charges (in accordance with Section 8) multiplied by Contract Demand. In the event that Shipper does not provide to Union such Security within such fourteen (14) day period, Union may deem a default under the Default and Termination provisions of Section XII of the General Terms & Conditions.

In the event that Shipper in good faith, reasonably believes that it should be entitled to reduce the amount of or value of the Security previously provided, it may request such a reduction from Union and to the extent that the Material Event has been mitigated or eliminated, Union shall return all or a portion of the Security to Shipper within fourteen (14) business days after receipt of the request.

12.03 & 12.04 Optional Clauses:

(Representation of Consumption in U.S. for Non-Resident, Non GST Registrant)

12.03 Point of Consumption Warranty: Shipper represents and warrants that, throughout the term of this Contract, all quantities of gas received by Union hereunder at the Receipt Point and/or all Loaned Quantities will be consumed in the U.S.A. Should any quantities of gas hereunder be directed to an end user in Canada, Shipper shall immediately notify Union that such quantities of gas will be consumed in Canada, as failure to do so will make Shipper liable to Union for any government taxes or levies and related interest and penalties thereon, made as a result of such change.

12.04 Tax Registration re GST: Shipper warrants and represents that it is unregistered and a Non-Resident for purposes of the GST. Shipper agrees to notify Union within ten (10) working days if it becomes registered. GST shall mean The Government of Canada's Goods and Services Tax as legislated under The Excise Tax Act, as may be amended from time to time.

ARTICLE XIII - MISCELLANEOUS PROVISIONS

13.01 (a) Permanent Assignment: Shipper may assign this Contract to a third party ("Assignee"), up to the Contract Demand, (the "Capacity Assigned"). Such assignment shall require the prior written consent of Union and release of obligations by Union for the Capacity Assigned from the date of assignment. Such consent and release shall not be unreasonably withheld and shall be conditional upon the Assignee providing, amongst other things, financial assurances as per Subsection 3.01 (d), herein. Any such assignment will be for the full rights, obligations and remaining term of this Contract as relates to the Capacity Assigned.

(b) Temporary Assignment: Shipper may, upon notice to Union, assign all or a part of its service entitlement under this Contract (the "Assigned Quantity") and the corresponding rights and obligations to an Assignee on a temporary basis for not less than one calendar month. Notwithstanding such assignment, Shipper shall remain obligated to Union to perform and observe the covenants and obligations contained herein in regard to the Assigned Quantity to the extent that Assignee fails to do so.

13.02 Notices: All communications provided for or permitted hereunder shall be in writing, personally delivered to an officer or other responsible employee of the addressee or sent by registered mail, charges prepaid, or by facsimile or other means of recorded telecommunication, charges prepaid, to

the applicable address set forth below or to such other address as either party hereto may from time to time designate to the other in such manner, provided that no communication shall be sent by mail pending any threatened, or during any actual, postal strike or other disruption of the postal service. Any communication personally delivered shall be deemed to have been validly and effectively received on the date of such delivery. Any communication so sent by facsimile or other means of telecommunication shall be deemed to have been validly and effectively received on the business day following the day on which it is sent. Any communication so sent by mail shall be deemed to have been validly and effectively received on the seventh business day following the day on which it is postmarked.

Communications to the parties hereto shall be directed as follows:

IF TO SHIPPER: _____

Nominations: Attention: _____
Telephone: ___-___-____
Facsimile: ___-___-____

Secondary Contact: Attention: _____
Telephone: ___-___-____
Facsimile: ___-___-____

IF TO UNION: Union Gas Limited,
50 Keil Drive North,
CHATHAM, Ontario N7M 5M1

Nominations: Attention: Manager, Gas Control
Telephone: 519-436-5217
Facsimile: 519-436-4635

Secondary Contact: Attention: Director, Acquisitions
Telephone: 519-436-4527
Facsimile: 519-436-4643

Notwithstanding the above, nominations shall be made by facsimile or other recorded electronic means, subject to execution of the "Agreement for Use of the Secured Portion of Union Gas Limited's Website," or such other agreement, satisfactory to Union, and will be deemed to be received on the same day and same time as sent. Each party may from time to time change its address for the purpose of this Section by giving notice of such change to the other party in accordance with this Section.

13.03 Law of Contract: Union and Shipper agree that this Contract is made in the Province of Ontario and that, subject to Article X of the General Terms and Conditions, the courts of the Province of Ontario shall have exclusive jurisdiction in all matters contained herein. The parties further agree this Contract shall be construed exclusively in accordance with the laws of the Province of Ontario.

13.04 Possession of Gas:

(a) Union accepts no responsibility for any gas prior to such gas being delivered to Union at the Receipt Point or after its delivery by Union at the Delivery Point. As between the parties

hereto, Union shall be deemed to be in control and possession of and responsible for all such gas from the time that such gas enters Union's system until such gas is delivered to Shipper.

(b) Shipper agrees that Union is not a common carrier and is not an insurer of Shipper's gas, and that Union shall not be liable to Shipper or any third party for loss of gas in Union's possession, except to the extent such loss is caused entirely by Union's negligence or wilful misconduct.

13.05 Title to Gas: Shipper represents and warrants to Union that Shipper shall have good and marketable title to, or legal authority to deliver to Union, all gas delivered to Union hereunder. Furthermore, Shipper hereby agrees to indemnify and save Union harmless from all suits, actions, debts, accounts, damages, costs, losses and expenses arising from or out of claims of any or all third parties to such gas or on account of royalties, taxes, license fees, or other charges thereon.

13.06 Entire Contract: This Contract (including the schedules attached hereto and Union's M12 Rate Schedule) constitutes the entire agreement between the parties hereto pertaining to the subject matter hereof. This Contract supersedes any prior or contemporaneous agreements, understandings, negotiations or discussions, whether oral or written, of the parties in respect of the subject matter hereof.

13.07 Time of Essence: Time shall be of the essence hereof.

13.08 Counterparts: This Contract may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original but all of which together shall constitute one and the same agreement. This Contract may be executed by facsimile.

13.09 Amendments and Waivers: Subject to Union's M12 Rate Schedule, Schedule A, Article XV and the ability of Union to amend the M12 Rate Schedule with the approval of the OEB, no amendment or modification of this Contract shall be effective unless the same shall be in writing and signed by each of the Shipper and Union. No waiver of any provision of this Contract shall be effective unless the same shall be in writing and signed by the party entitled to the benefit of such provision and then such waiver shall be effective only in the specific instance and for the specified purpose for which it was given. No failure on the part of Shipper or Union to exercise, and no course of dealing with respect to, and no delay in exercising, any right, power or remedy under this Contract shall operate as a waiver thereof.

13.10 Severability: If any provision hereof is invalid or unenforceable in any jurisdiction, to the fullest extent permitted by law, (a) the other provisions hereof shall remain in full force and effect in such jurisdiction and shall be construed in order to carry out the intention of the parties as nearly as possible and (b) the invalidity or unenforceability of any provision hereof in any jurisdiction shall not affect the validity or enforceability of any provision in any other jurisdiction.

13.11 General Liability: The liability of the parties hereunder is limited to direct damages only and all other remedies or damages are waived. In no event shall either party be liable for consequential, incidental, punitive, or indirect damages, in tort, contract or otherwise.

THIS CONTRACT SHALL BE BINDING UPON and shall enure to the benefit of the parties hereto and their respective successors and permitted and lawful assigns.

IN WITNESS WHEREOF this Contract has been properly executed by the parties hereto by their duly authorized officers as of the date first above written.

UNION GAS LIMITED

By: _____

By: _____

SHIPPER: _____

Title:

Title:

Contract No. M12xxx

POINTS AND PRESSURES

The following defines each Receipt Point and/or Delivery Point:

- DAWN (TCPL):** At the junction of Union's and TCPL's facilities, at or adjacent to Dawn (Facilities).
- DAWN (FACILITIES):** Union's Compressor Station site situated in the northwest corner of Lot Twenty-Five (25), Concession II, in the Township of Dawn-Euphemia, in the County of Lambton. This point is applicable for quantities of gas that have been previously transported or stored under other contracts that Shipper may have in place with Union.
- DAWN (TECUMSEH):** At the junction of Union's and Tecumseh Gas Storage's, a division of Enbridge Gas Distribution Inc. ("Enbridge") facilities, at or adjacent to Dawn (Facilities).
- DAWN (VECTOR):** At the junction of Union's and Vector pipeline Limited Partnership ("Vector") facilities, at or adjacent to Dawn (Facilities).
- PARKWAY (TCPL):** At the junction of Union's and TCPL's facilities, at or adjacent to Union's facilities situated in the Part Lot 9 and Part Lot 10, Concession IX, New Survey, Town of Milton, Regional Municipality of Halton.
- KIRKWALL:** At the junction of Union's and TCPL's facilities at or adjacent to Union's facilities situated in Part Lot Twenty-Five (25), Concession 7, Town of Flamborough.
- PARKWAY (CONSUMERS):** At the junction of the facilities of Union and Enbridge, at or adjacent to Union's facilities situated in Part Lot 9 and Part Lot 10, Concession IX, New Survey, Town of Milton, Regional Municipality of Halton.
- LISGAR:** At the junction of the facilities of Union and Enbridge situated at 6620 Winston Churchill Boulevard, City of Mississauga.

Dated: _____

RECEIPT PRESSURES

- DAWN (TCPL):** Receipts by Union shall be at a pressure of not less than 4,825 kPa.
- DAWN (FACILITIES):** Receipts by Union shall be at a pressure of not less than 4,825 kPa.
- DAWN (TECUMSEH):** Receipts by Union shall be at a pressure of not less than 4,825 kPa.
- DAWN (VECTOR):** Receipts by Union shall be at a pressure of not less than 4,930 kPa.

DELIVERY PRESSURES

- PARKWAY (TCPL):** Deliveries by Union to TCPL shall be made at a pressure in accordance with the Parkway Operating Agreement between TCPL and Union dated October 1, 1993, as amended or restated from time to time (the "Parkway Operating Agreement")
- KIRKWALL:** Deliveries by Union to TCPL shall be made at Union's prevailing line pressure which shall be in accordance with the Parkway Operating Agreement.
- PARKWAY (CONSUMERS):** Delivery pressures shall be as stated in the Enbridge Operating Agreement between Enbridge (under its former corporate name) and Union dated March 9, 1998 (accepted March 16, 1998), as amended or restated from time to time (the "Enbridge Operating Agreement").
- LISGAR:** Delivery pressures shall be as stated in the Enbridge Operating Agreement as it may be amended from time to time.

Dated: _____

SCHEDULE "A"

RATE M12
GENERAL TERMS & CONDITIONS

I. DEFINITIONS

Except where the context expressly requires or states another meaning, the following terms, when used in these General Terms & Conditions and in any contract into which these General Terms & Conditions are incorporated, shall be construed to have the following meanings:

1. "Contract" shall refer to the contract to which these General Terms & Conditions shall apply, and into which they are incorporated;
2. "cubic metre" shall mean the volume of gas which occupies one cubic metre when such gas is at a temperature of 15 degrees Celsius, and at a pressure of 101.325 kilopascals absolute;
3. "day" shall mean a period of twenty-four (24) consecutive hours beginning at 9:00 a.m. Central Standard time. The reference date for any day shall be the calendar date upon which the twenty-four (24) hour period shall commence;
4. "delivery" shall mean any gas that is delivered by Union into Shipper's possession, or to the possession of Shipper's agent;
5. "firm" shall mean service not subject to curtailment or interruption except under Articles XI and XII of this Schedule "A";
6. "gas" shall mean gas as defined in the Ontario Energy Board Act, 1998, S.O. 1998, c. 15, Sch. B, as amended, supplemented or reenacted from time to time;
7. "gross heating value" shall mean the total heat expressed in megajoules per cubic metre (MJ/m³) produced by the complete combustion at constant pressure of one (1) cubic metre of gas with air, with the gas free of water vapour and the temperature of the gas, air and products of combustion at standard temperature and all water formed by the combustion reaction condensed to the liquid state;
8. "interruptible service" shall mean service subject to curtailment or interruption, after notice, at any time;
9. "Interconnecting Pipeline" shall mean a pipeline that directly connects to the Union pipeline system;
10. "joule" (J) shall mean the work done when the point of application of a force of one (1) newton is displaced a distance of one (1) metre in the direction of the force. The term "megajoule" (MJ) shall mean 1,000,000 joules. The term "gigajoule" (GJ) shall mean 1,000,000,000 joules;
11. "limited interruptible service" shall mean gas service subject to interruption or curtailment on a limited number of days as specified in the Contract;
12. "m³" shall mean cubic metre of gas and "10³m³" shall mean 1,000 cubic metres of gas;
13. "month" shall mean the period beginning at 9:00 a.m. Central Standard time on the first day of a calendar month and ending at 9:00 a.m. Central Standard time on the first day of the following calendar month;
14. "OEB" means the Ontario Energy Board;
15. "pascal" (Pa) shall mean the pressure produced when a force of one (1) newton is applied to an area of one (1) square metre. The term "kilopascal" (kPa) shall mean 1,000 pascals;
16. "receipt" shall mean any gas that is delivered into Union's possession, or the possession of Union's agent;
17. "Shipper" shall have the meaning as defined in the Contract and shall also include Shipper's agent(s);
18. "TCPL" means TransCanada PipeLines Limited;

II. GAS QUALITY

1. Natural Gas: The minimum gross heating value of the gas delivered to/by Union hereunder, shall be thirty-six (36) megajoules per cubic metre. The maximum gross heating value of the gas delivered to/by Union hereunder shall be forty point two (40.2) megajoules per cubic metre. The gas to be delivered hereunder to Union may be a commingled supply from Shipper's natural gas sources of supply. The gas to be delivered by Union may be a commingled supply from Union's sources of gas supply; provided, however, that helium, natural gasoline, butane, propane and other hydrocarbons except methane may be removed prior to delivery to Shipper. Further, Union may subject, or permit the subjection of, the gas to compression, dehydration, cooling, cleaning and other processes.
2. Freedom from objectionable matter: The gas to be delivered to/by Union hereunder,
 - a. shall be commercially free from sand, dust, gums, crude oils, lubricating oils, liquids, chemicals or compounds used in the production, treatment, compression or dehydration of the gas or any other objectionable substance in sufficient quantity so as to render the gas toxic, unmerchantable or cause injury to or interference with the proper operation of the lines, regulators, meters or other appliances through which it flows,
 - b. shall not contain more than seven (7) milligrams of hydrogen sulphide per cubic metre of gas nor more than four hundred and sixty (460) milligrams of total sulphur per cubic metre of gas as determined by standard methods of testing,
 - c. shall not contain more than five (5) milligrams of mercaptan sulphur per cubic metre of gas,
 - d. shall not contain more than two point zero (2.0) molar percent by volume of carbon dioxide in the gas,
 - e. shall not contain more than zero point five (0.5) molar percent by volume of carbon monoxide in the gas,
 - f. shall not contain more than zero point four (0.4) molar percent by volume of oxygen in the gas,
 - g. shall not contain more than four point zero (4.0) molar percent by volume of hydrogen in the gas,
 - h. shall not contain more than sixty-five (65) milligrams of water vapour per cubic metre of the gas,
 - i. shall not have a hydrocarbon dewpoint exceeding minus ten (-10) degrees Celsius at five thousand-five hundred (5500) kPa pressure,
 - j. shall not contain less than one point zero (1.0) molar percent by volume of ethane in the gas,
 - k. shall at all times be interchangeable with other pipeline gas such that the yellow tipping, flashback and lifting factors shall be within the range permitted for gas according to AGA Research Bulletin No. 36,
3. In addition to any other right or remedy of a party, each party shall be entitled to refuse to accept delivery of any gas which does not conform to any of the specifications set out in Section 2.

III. MEASUREMENTS

1. Storage, Transportation, and/or Sales Unit: ("The Unit") The Unit of the gas delivered to Union shall be a megajoule or a gigajoule. The unit of gas transported or stored by Union shall be a megajoule or a gigajoule. The unit of gas delivered by Union shall be a megajoule, a gigajoule, a cubic metre (m³) or one thousand cubic metres (10³m³) at Union's discretion.
2. Determination of Volume and Energy:
 - a. The volume and energy amounts determined under the Contract shall be determined in accordance with the Electricity and Gas Inspection Act (Canada), assented to 31 March, 1982 and the Electricity and Gas

Inspection Regulations, P.C. 1986-116, 16 January, 1986, and any documents issued under the authority of the Act and Regulations and any amendments thereto.

- b. The supercompressibility factor shall be determined in accordance with either the "Manual for Determination of Supercompressibility Factors for Natural Gas" (PAR Project NX-19) published in 1962 or with American Gas Association Transmission Measurement Committee Report No. 8, Nov. 1992, at Union's discretion, all as amended from time to time.
- c. The volume and/or energy of the gas delivered to/by Union hereunder shall be determined by the measurement equipment designated in Article VII - Measuring Equipment, of this schedule.

IV. RECEIPT POINT AND DELIVERY POINT

1. Unless otherwise specified in the Contract, the point or points of receipt for all gas to be covered hereunder shall be on the outlet side of the measuring stations located at or near the point or points of connection specified in the Contract, where Union takes possession of the gas.
2. Unless otherwise specified in the Contract, the point or points of delivery for all gas to be covered hereunder shall be on the outlet side of the measuring stations located at or near the point or points of connection as specified in the Contract where Shipper takes possession of the gas.

V. POSSESSION OF AND RESPONSIBILITY FOR GAS

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VI. FACILITIES ON SHIPPER'S PROPERTY

Except under those conditions where Union is delivering to TCPL for TCPL or Shipper at Union's Parkway Point of Delivery, or to an Interconnecting Pipeline, or where otherwise specified in the Contract, the following will apply:

1. Construction and Maintenance: Union, at its own expense may construct, maintain and operate on Shipper's property at the delivery point a measuring station properly equipped with a meter or meters and any other necessary measuring equipment for properly measuring the gas redelivered under the Contract. Shipper will grant to Union a lease and/or rights-of-way over property of Shipper as required by Union to install such facilities and to connect same to Union's pipeline.
2. Entry: Union, its servants, agents and each of them may at any reasonable time on notice (except in cases of emergency) to Shipper or his duly authorized representative enter Shipper's property for the purpose of constructing, maintaining, removing, operating and/or repairing station equipment.
3. Property: The said station and equipment will be and remain the property of Union notwithstanding it is constructed on and attached to the realty of Shipper, and Union may at its own expense remove it upon termination of the Contract and will do so if so requested by Shipper.

VII. MEASURING EQUIPMENT

1. Metering by Union: Union will install and operate meters and related equipment as required and in accordance with the Act and Regulations referenced in Article III subparagraph 2.a.
2. Metering by Others: In the event that all or any gas delivered to/by Union hereunder is measured by a meter that is owned and operated by an Interconnecting Pipeline, then Union and Shipper agree to accept that metering for the purpose of determining the volume and energy of gas delivered to/by Union on behalf of the Shipper. The standard of measurement and tests for the gas delivered to/by Union hereunder shall be in accordance with the general terms and conditions as incorporated in that Interconnecting Pipeline company's gas tariff as approved by their regulatory body.

3. Check Measuring Equipment: Shipper may install, maintain and operate, at the redelivery point, at its own expense, such check measuring equipment as desired, provided that such equipment shall be so installed as not to interfere with the operation of Union's measuring equipment at or near the delivery point, and shall be installed, maintained and operated in conformity with the same standards and specifications applicable to Union's metering facilities.
4. Rights of Parties: The measuring equipment installed by either party, together with any building erected by it for such equipment, shall be and remain its property. However, Union and Shipper shall have the right to have representatives present at the time of any installing, reading, cleaning, changing, repairing, inspecting, testing, calibrating, or adjusting done in connection with the other's measuring equipment used in measuring or checking the measurement of deliveries of gas to/by Union under the Contract. Either party will give the other party reasonable notice of its intention to carry out the acts herein specified. The records from such measuring equipment shall remain the property of their owner, but upon request each will submit to the other its records and charts, together with calculations therefrom, for inspection and verification, subject to return within ten days after receipt thereof.
5. Calibration and Test of Measuring Equipment: The accuracy of Union's measuring equipment shall be verified by Union at reasonable intervals, and if requested, in the presence of representatives of Shipper, but Union shall not be required to verify the accuracy of such equipment more frequently than once in any thirty (30) day period. In the event either party shall notify the other that it desires a special test of any measuring equipment, the parties shall co-operate to secure a prompt verification of the accuracy of such equipment. The expense of any such special test, if called for by Shipper, shall be borne by Shipper if the measuring equipment tested is found to be in error by not more than two per cent (2%). If, upon test, any measuring equipment is found to be in error by not more than two per cent (2%), previous recordings of such equipment shall be considered accurate in computing redeliveries of gas, but such equipment shall be adjusted at once to record as near to absolute accuracy as possible. If the test conducted shows a percentage of inaccuracy greater than two percent (2%), the financial adjustment, if any, shall be calculated in accordance with the Electricity and Gas Inspection Act (1982) and regulations thereunder, as may be amended from time to time and in accordance with any successor statutes and regulations.
6. Preservation of Metering Records: Union and Shipper shall each preserve for a period of at least six (6) years all test data, and other relevant records.

VIII. BILLING

1. Monthly Billing Date: Union shall render bills on or before the 10th day of each month for all services furnished during the preceding month. Such charges may be based on estimated quantities, if actual quantities are unavailable in time to prepare the billing. Union shall provide, in a succeeding month's billing, an adjustment based on any difference between actual quantities and estimated quantities, without any interest charge. If presentation of a bill to Shipper is delayed after the 10th day of the month, then the time of payment shall be extended accordingly, unless Shipper is responsible for such delay.
2. Right of Examination: Both Union and Shipper shall have the right to examine at any reasonable time the books, records and charts of the other to the extent necessary to verify the accuracy of any statement, chart or computation made under or pursuant to the provisions of the Contract.

IX. PAYMENTS

1. Monthly payments: Shipper shall, unless otherwise directed by Union, pay directly into Union's account at the Canadian Imperial Bank of Commerce, Chatham, Ontario by electronic funds transfer to transit 010 00282, account 00-3301 if paying in Canadian funds; and, account 02-6717 if paying in US funds, so that Union shall receive payment from Shipper, on or before the twentieth (20th) day of each month, payment on the bill provided by Union. If the payment date is not a business day, then payment must be received in Union's account on the first business day preceding the twentieth (20th) day of the month.
2. Remedies for nonpayment: Should Shipper fail to pay all of the amount of any bill as herein provided when such amount is due,

- a. Shipper shall pay to Union interest on the unpaid portion of the bill accruing at a rate per annum equal to the minimum commercial lending rate of Union's principal banker in effect from time to time from the due date until the date of payment.
- b. If such failure to pay continues for thirty (30) days after payment is due, Union, in addition to any other remedy it may have under the Contract, may suspend service(s) until such amount is paid. Notwithstanding such suspension, all demand charges shall continue to accrue hereunder as if such suspension were not in place.

If Shipper, in good faith disputes the amount of any such bill or part thereof, Shipper shall pay to Union such amounts as it concedes to be correct. At any time thereafter, within twenty (20) days of a demand made by Union, Shipper shall furnish financial assurances satisfactory to Union, guaranteeing payment to Union of the amount ultimately found due upon such bill after a final determination. Such a final determination may be reached either by agreement, arbitration decision or judgement of the courts, as may be the case. Union shall not be entitled to suspend service(s) because of such non-payment unless and until default occurs in the conditions of such financial assurances or default occurs in payment of any other amount due to Union hereunder.

Notwithstanding the foregoing paragraph(s), Shipper is not relieved from the obligation to continue its deliveries of gas to Union under the terms of any agreement, where Shipper has contracted to deliver specified quantities of gas to Union.

3. Billing Adjustments: If it shall be found that at any time or times Shipper has been overcharged or undercharged in any form whatsoever under the provisions of the Contract and Shipper shall have actually paid the bills containing such overcharge or undercharge, Union shall refund the amount of any such overcharge and interest shall accrue from and including the first day of such overcharge as paid to the date of refund and shall be calculated but not compounded at a rate per annum determined each day during the calculation period to be equal to the minimum commercial lending rate of Union's principal banker, and the Shipper shall pay the amount of any such undercharge, but without interest. In the event Union renders a bill to Shipper based upon measurement estimates, the required adjustment to reflect actual measurement shall be made on the bill next following the determination of such actual measurement, without any charge of interest. In the event an error is discovered in the amount billed in any statement rendered by Union, such error shall be adjusted by Union. Such overcharge, undercharge or error shall be adjusted by Union on the bill next following its determination (where the term "bill" next following shall mean a bill rendered at least fourteen (14) days after the day of its determination), provided that claim therefore shall have been made within six (6) years from the date of the incorrect billing. In the event any refund is issued with Shipper's gas bill, the aforesaid date of refund shall be deemed to be the date of the issue of bill.

X. ARBITRATION

If and when any dispute, difference or question shall arise between the parties heretotouching the Contract or anything herein contained, or the construction hereof, or the rights, duties or liabilities of the parties in relation to any matter hereunder, the matter in dispute shall be submitted and referred to arbitration within ten (10) days after written request of either party. Upon such request each party shall appoint an arbitrator, and the two so appointed shall appoint a third. A majority decision of the arbitrators shall be final and binding upon both parties. In all other respects the provisions of the Arbitration Act of the Province of Ontario, or any Act passed in amendment thereof or substitution therefore, shall apply to each such submission. Operations under the Contract shall continue, without prejudice, during any such arbitration and the costs attributable to such arbitration shall be shared equally by the parties hereto.

XI. FORCE MAJEURE

1. The term "force majeure" as used herein shall mean acts of God, strikes, lockouts or any other industrial disturbance, acts of the public enemy, sabotage, wars, blockades, insurrections, riots, epidemics, landslides, lightening, earthquakes, fires, storms, floods, washouts, arrests and restraints of governments and people, civil disturbances, explosions, breakage or accident to machinery or lines of pipe, freezing of wells or lines of pipe, inability to obtain materials, supplies, permits or labour, any laws, orders, rules, regulations, acts or restraints of any governmental body or authority (civil or military), any act or omission that is excused by any event or occurrence of the character herein defined as constituting force majeure, any act or omission by parties not controlled by the party having the difficulty and

any other similar cases not within the control of the party claiming suspension and which by the exercise of due diligence such party is unable to prevent or overcome.

2. In the event that either the Shipper or Union is rendered unable, in whole or in part, by force majeure, to perform or comply with any obligation or condition of the Contract, such party shall give notice and full particulars of such force majeure in writing delivered by hand, fax or other direct written electronic means to the other party as soon as possible after the occurrence of the cause relied on and subject to the provision of this Article.
3. Neither party shall be entitled to the benefit of the provisions of force majeure hereunder if any or all of the following circumstances prevail: the failure resulting in a condition of force majeure was caused by the negligence of the party claiming suspension; the failure was caused by the party claiming suspension where such party failed to remedy the condition by making all reasonable efforts (short of litigation, if such remedy would require litigation); the party claiming suspension failed to resume the performance of such condition obligations with reasonable dispatch; the failure was caused by lack of funds; the party claiming suspension did not as soon as possible after determining or within a period within which it should acting reasonably have determined that the occurrence was in the nature of force majeure and would affect its ability to observe or perform any of its conditions or obligations under the Contract give to the other party the notice required hereunder.
4. The party claiming suspension shall likewise give notice as soon as possible after the force majeure condition is remedied, to the extent that the same has been remedied, and that such party has resumed or is then in a position to resume the performance of the obligations and conditions of the Contract.

XII. DEFAULT AND TERMINATION

In case of the breach or nonobservance or nonperformance on the part of either party hereto of any covenant, proviso, condition, restriction or stipulation contained in the Contract (but not including herein failure to take or make delivery in whole or in part of the gas delivered to/by Union hereunder occasioned by any of the reasons provided for in Article XI hereof) which has not been waived by the other party, then and in every such case and as often as the same may happen, the Non-defaulting party may give written notice to the Defaulting party requiring it to remedy such default and in the event of the Defaulting party failing to remedy the same within a period of thirty (30) days from receipt of such notice, the Non-defaulting party may at its sole option declare the Contract to be terminated and thereupon the Contract shall be terminated and be null and void for all purposes other than and except as to any liability of the parties under the same incurred before and subsisting as of termination. The right hereby conferred upon each party shall be in addition to, and not in derogation of or in substitution for, any other right or remedy which the parties respectively at law or in equity shall or may possess.

XIII. MODIFICATION

Subject to Union's M12 Rate Schedule, Schedule A, Article XV and the ability of Union to amend the M12 Rate Schedule with the approval of the OEB, no amendment or modification of the Contract shall be effective unless the same shall be in writing and signed by each of the Shipper and Union.

XIV. NONWAIVER AND FUTURE DEFAULT

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XV. LAWS, REGULATIONS AND ORDERS

The Contract and the respective rights and obligations of the parties hereto are subject to all present and future valid laws, orders, rules and regulations of any competent legislative body, or duly constituted authority now or hereafter having jurisdiction and the Contract shall be varied and amended to comply with or conform to any valid order or direction of any board, tribunal or administrative agency which affects any of the provisions of the Contract.

UNION GAS LIMITED
Calculation of Revenue Deficiency/(Sufficiency)
Calendar Year Ending December 31, 2007

Line No.	Particulars (\$000's)	As Filed (a)	ADR Adjustments (b)	As Per Settlement Agreement (c)
1	Operating revenue (1)	\$ 1,987,973	14,000	2,001,973
2	Cost of service (2)	<u>1,756,222</u>	<u>(19,631)</u>	<u>1,736,590</u>
3	Utility income	231,752	33,631	265,383
4	Requested return (3)	<u>292,327</u>	<u>(11,154)</u>	<u>281,173</u>
5	Revenue deficiency/(sufficiency) after tax	60,575	(44,786)	15,789
6	Provision for income taxes on deficiency (sufficiency)	<u>34,252</u>	<u>(25,324)</u>	<u>8,928</u>
7	Total revenue deficiency/(sufficiency)	<u>\$ 94,827</u>	<u>(70,110)</u>	<u>24,717</u>

Notes:

- (1) Schedule 2 line 4 column d
- (2) Schedule 2 lines 10 & 12 column d
- (3) Schedule 3 line 12 column d

UNION GAS LIMITED
Statement of Utility Income
Calendar Year Ending December 31, 2007

Line No.	Particulars (\$000's)	As Filed				As Per Settlement Agreement (e)
		Total per Exhibit A3 Tab 1 (a)	Adjustments (b)	Utility Income (c)	ADR Adjustments (d)	
	Operating Revenues:					
1	Gas Sales	\$ 1,783,516	\$ -	\$ 1,783,516	\$ -	\$ 1,783,516
2	Transportation	182,023	-	182,023	12,000	194,023
3	Other	22,434	-	22,434	2,000	24,434
4		<u>1,987,973</u>	<u>-</u>	<u>1,987,973</u>	<u>14,000</u>	<u>2,001,973</u>
	Operating Expenses:					
5	Cost of gas	1,148,248	-	1,148,248	-	1,148,248
6	Operating and maintenance expenses (1) (3)	353,701	(376)	353,325	(32,000)	321,325
7	Depreciation	178,502	-	178,502	-	178,502
8	Other financing (2)	-	315	315	-	315
9	Property and capital taxes (4)	69,122	-	69,122	(451)	68,671
10		<u>1,749,573</u>	<u>(61)</u>	<u>1,749,512</u>	<u>(32,451)</u>	<u>1,717,061</u>
11	Utility income before income taxes	<u>\$ 238,400</u>	<u>\$ 61</u>	<u>238,461</u>	<u>46,451</u>	<u>284,912</u>
12	Income taxes (5)			<u>6,710</u>	<u>12,820</u>	<u>19,529</u>
13	Total utility income			<u>\$ 231,752</u>	<u>\$ 33,631</u>	<u>\$ 265,383</u>

Notes:

(1)	Charitable donations	(376)
(2)	Customer deposit interest	315
(3)	Reduction in O&M	(23,000)
	DSM increase to be dealt with in generic proceeding	<u>(9,000)</u>
		(32,000)
(4)	Reduction in capital tax rate from 0.3% to 0.285%	(451)
(5)	Schedule 4 line 14 column c	

UNION GAS LIMITED
Summary of Cost of Capital
Year Ending December 31, 2007

Line No.	Particulars	Utility Capital Structure		Cost Rate %	Requested Return (\$000's)
		(\$000's) (a)	(%) (b)		
<u>As Filed</u>					
1	Long-term debt	\$ 2,090,667	61.27	7.68%	160,559
2	Unfunded short-term debt	<u>(152,817)</u>	<u>(4.48)</u>	3.16%	<u>(4,831)</u>
3	Total debt	1,937,850	56.79		155,728
4	Preference shares	109,469	3.21	4.71%	5,161
5	Common equity	<u>1,364,880</u>	<u>40.00</u>	9.63%	<u>131,438</u>
6	Total rate base	\$ <u><u>3,412,199</u></u>	<u><u>100.00</u></u>		<u><u>292,327</u></u>
<u>As Per Settlement Agreement</u>					
7	Long-term debt (1)	\$ 2,082,334	61.66	7.66%	159,403
8	Unfunded short-term debt (2)	<u>(30,396)</u>	<u>(0.90)</u>	1.55%	<u>(472)</u>
9	Total debt	2,051,938	60.76		158,931
10	Preference shares	109,469	3.24	4.71%	5,161
11	Common equity (3)	<u>1,215,792</u>	<u>36.00</u>	9.63%	<u>117,081</u>
12	Total rate base (4)	\$ <u><u>3,377,199</u></u>	<u><u>100.00</u></u>		<u><u>281,173</u></u>
13	Change	(35,000)			(11,154)

Notes:

- (1) Reflects updated interest rate forecast for 2006 as at March '06 , no new issues after Sept 2006
- (2) Reflects updated interest rate forecast for 2007 as at March '06 and increase in standby charges to \$800K
- (3) Reflects 36% common equity
- (4) Reflects a reduction of \$35 million in rate base

UNION GAS LIMITED
Calculation of Utility Income Taxes
Year Ended December 31, 2007

Line No.	Particulars (\$000's)	As Filed (a)	ADR Adjustments (b)	As Per Settlement Agreement (c)
<u>Determination of Taxable Income</u>				
1	Utility income before interest and income taxes (1)	\$ 238,461	\$ 46,451	\$ 284,912
Adjustments required to arrive at taxable utility income:				
2	Interest expense (2)	(155,729)	(3,202)	(158,931)
3	Utility permanent differences	<u>1,376</u>	<u>0</u>	<u>1,376</u>
4		<u>84,109</u>	<u>43,249</u>	<u>127,358</u>
Utility timing differences				
5	Capital Cost Allowance (3)	(164,594)	(3,795)	(168,389)
6	Depreciation	178,502		178,502
7	Depreciation through clearing	1,150		1,150
8	Other (3)	<u>(36,415)</u>	<u>(2,276)</u>	<u>(38,691)</u>
9		<u>(21,357)</u>	<u>(6,071)</u>	<u>(27,428)</u>
10	Taxable income	\$ <u>62,752</u>	\$ <u>37,178</u>	\$ <u>99,930</u>
<u>Calculation of Utility Income Taxes</u>				
11	Income taxes (line 10 * line 17)	\$ 22,667	\$ 13,429	\$ 36,095
12	Large corporation tax (4)	1,656	(1,656)	-0
13	Deferred tax drawdown (3)	<u>(17,613)</u>	<u>1,048</u>	<u>(16,565)</u>
14	Total taxes	\$ <u>6,710</u>	\$ <u>12,821</u>	\$ <u>19,529</u>
<u>Tax Rates</u>				
15	Federal tax	22.12%		22.12%
16	Provincial tax	14.00%		14.00%
17	Total tax rate	<u>36.12%</u>		<u>36.12%</u>

Notes:

- (1) Schedule 2 line 11 column e
- (2) Schedule 3 line 12 column d
- (3) Reflects the elimination of the proposed tax normalization Exhibit D1 Tab 4 Appendix B
- (4) Reflects the elimination of the LCT