



Financial Services Department, Utilities

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Director of Utilities*

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December 8, 2003

Rick Birmingham
Vice-President, Regulatory Affairs &
Business Services
50 Keil Dr. N.
Chatham, Ontario
N7M 5M1

Attention: Mr. Rick Birmingham

Dear Rick,

On the afternoon of Friday December 5th an email was sent to Union Gas requesting authorization for an exfranchise diversion and incremental deliveries. Later in the afternoon, we placed a phone call to inquire as to the status of our request. A voice mail message indicated that Chris Ripley was away for the day. A message was left. At approximately 4:40 p.m., Chris Ripley called Loraine Baillargeon and indicated that this type of request was "ridiculous". It was explained that the purpose of the transactions were to create late season deliverability which is our responsibility, by diverting extra gas now in exchange for deliveries needed in April 2004. The response received was that Chris would have to get back to us on Monday. A message was left on Chris Ripley's cell phone indicating that we required authorization by Monday, December 8th at 9:00 am. and that the only reason Union could have to deny the request would be for operational restrictions.

As we had not received a response by 9:00 am., we sent an email indicating that we expected this request to be approved and were awaiting the formal paperwork. A response from Chris advised that "Capacity Management" is not authorizing the transaction "due to the apparent lack of need". We do not believe that Union has any authority to judge the necessity of a transaction. Kitchener has deemed that the requested authorization is the best way to manage redeliveries to itself. Union's role is to manage transactions within the physical limitations of your system. As there are currently no physical constraints, we would expect Union to approve the transactions. Kitchener transacted last Friday in absence of a Union authorization as our only contact was not available. The value of the transaction for Kitchener was approximately \$200,000 plus the value of April redeliveries. In the event that Union does not authorize our request, Kitchener will be forced to transact additionally and will hold Union responsible for the costs.

Yours truly,

A handwritten signature in black ink, appearing to read "Alick Ryder". The signature is written in a cursive style with a large, stylized "R" at the end.

Cc: Mr. Alick Ryder, Ryder Wright Blair Doyle
Mr. Chris Ripley, Union Gas

**uniongas**

A Duke Energy Company

December 8, 2003

City of Kitchener
City Hall
P.O. Box 1118
200 King Street West
Kitchener, Ontario
N2G 4G7

Attention: Mr. Dwayne Quinn

Dear Dwayne:

Thank you for your letter dated December 8, 2003.

Union has not authorized your request for a diversion for 2 reasons. First, CCK does not have sufficient Dawn deliveries for an exfranchise diversion at Dawn. In your conversation with Mr. Ripley, you noted that you wanted the gas to come out of storage. This is not possible. Per the T3 contract, CCK's withdrawals are at their re-delivery points – essentially the Kitchener City Gate – and not at Dawn.

Accordingly, CCK's diversion would apply to deliveries to Parkway. CCK is a semi-unbundled customer served under the T3 rate schedule and the T3 contract contains no entitlement to diversions. Union relies on CCK's firm DCQ entering Union's system on daily basis as part of its delivery plan. At this time, consistent with all bundled and semi-unbundled customers, Union is not allowing diversions unless the customer will exceed their maximum storage balance. At present, Union requires all deliveries at Parkway.

Secondly, CCK's storage balance is 91% full. We are now in December, a period when CCK has historically experienced net withdrawals on a daily basis. CCK is clearly not in jeopardy of exceeding its storage balance.

In conversations with Mr. Ripley and your message to myself, you mentioned that you had committed to the transaction with WPS as outlined in the diversion request. As this was done prior to receiving Union's authorization for the diversion underpinning the transaction, Union is not responsible for any financial consequences CCK may face as a result of its need to terminate or renegotiate its transaction with WPS.

Should you have any further questions regarding this matter, please contact Chris Ripley or Libby Passmore.

Yours truly,

Rick Birmingham

Cc: Mr. Alick Ryder, Ryder Wright Blair Doyle
Mr. Chris Ripley, Union Gas

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Union Gas Limited