uniongas
A Spectra Energy Company

June 28, 2010

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 26th Floor
Toronto, ON
M4P 1E4

Re: EB-2010-0039 - Union Gas Limited - 2009 Earnings Sharing & Disposition of Deferral Account and Other Balances – Responses to Interrogatories

Dear Ms. Walli:

Please find attached Union's responses to the EB-2010-0039 interrogatories. These IR responses contain information that is competitive in nature and that could impact Union's ability to capitalize unregulated storage opportunities in the future.

Union has filed the responses to Board Staff question 9, CME question 18 and FRPO question 18 under separate confidential cover. Due to the market information included in these responses, Union requests that the Board maintain these responses as confidential per the Practice Direction on Confidential Filings. Intervenors wishing to view these responses must execute a Declaration and Undertaking and forward it to Union.

Should you have any questions, please contact me at 519-436-5476.

Yours truly,

[original signed by]

Chris Ripley
Manager, Regulatory Applications

cc Crawford Smith (Torys)
EB-2010-0039 Intervenors

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Ref: Exhibit A, Tab 1, page 6

Please provide a summary table with a break down of revenue, allocated costs, total margin, and the earnings sharing amount to customers for:
- C1 off peak storage
- Gas Loans
- Enbridge LBA
- Supplemental Balancing
- C1 ST firm peak
- C1 firm ST deliverability

Response:

Please see the attachment.

Filed: 2010-06-28
EB-2010-0039
Exhibit B1.01
Attachment

2007 - 2009 Continuity
Short Term Storage Services Account 179-70

Line No.	Particulars ($000's)	2007 Board Approved ($ 000's)	2007 Cost % of Total Revenue	2008 Actual (10^3M^3)	2008 Actual ($ 000's)	2008 Actual vs. Board Approved ($ 000's)	2008 Actual vs. Board Approved (%)	2008 Cost % of Total Revenue	2009 Actual (10^3M^3)	2009 Actual ($ 000's)	2009 Actual vs. Board Approved ($ 000's)	2009 Actual vs. Board Approved (%)	2009 Cost % of Total Revenue
1	Revenue												
2	C1 Off-Peak Storage	$ 1,000		1,351,590 $	2,040 $	1,040	104%		1,145,504 $	4,344 $	3,344	334%	
3	Supplemental Balancing Services	2,000		1,511,426	3,122	1,122	56%		695,632	2,903	903	45%	
4	Gas Loans	1,000		647,556	2,177	1,177	118%		1,335,987	3,922	2,922	292%	
5	Enbridge LBA	75		0	211	136	181%		0	0	-75	(100%)	
6	C1 ST Firm Peak Storage	13,794		1,239,871	15,777	1,983	14%		744,717	17,746	3,952	29%	
7	C1 Firm ST Deliverability	92			-	-92	(100%)			0	-92	(100%)	
9	Total Revenue	17,961		4,750,443	23,327	5,366	30%		3,921,839	28,914	10,953	61%	
10	Costs												
11	Demand												
12	O&M	(175)	(1%)		(2,261)	-2,086	1192%	(10%)		-2,261	-2,086	1192%	(8%)
13	Depreciation	(132)	(1%)			132	(100%)	0%		0	132	(100%)	0%
14	Property & Capital Tax	(28)	(0%)			28	(100%)	0%		0	28	(100%)	0%
15	Return	(105)	(1%)			105	(100%)	0%		0	105	(100%)	0%
16	Interest	(153)	(1%)			153	(100%)	0%		0	153	(100%)	0%
17	Income Taxes	(6)	(0%)			6	(100%)	0%		0	6	(100%)	0%
18	Total Demand	(599)	(3%)		(2,261)	-1,662	277%	(10%)		-2,261	-1,662	277%	(8%)
19	Commodity												
20	O&M	(74)	(0%)		-	74	(100%)	0%			74	(100%)	0%
21	UFG	(751)	(4%)		(3,269)	-2,518	335%	(14%)		(2,352)	-1,601	213%	(8%)
22	Compressor Fuel	(707)	(4%)		(2,939)	-2,232	316%	(13%)		(1,512)	-805	114%	(5%)
23	Total Commodity	(1,532)	(9%)		(6,208)	-4,676	305%	(27%)		(3,864)	-2,332	152%	(13%)
24	Total Costs (line 17 + line 22)	(2,131)	(12%)		(8,469)	-6,338	297%	(36%)		(6,125)	-3,994	187%	(21%)
25	Net Revenue	$ 15,829			$ 14,858 $	-971	(6%)			$ 22,789 $	6,960	44%	
26	Deferral Sharing (90% x 79%)										$ 4,949		

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Ref: Exhibit A, Tab 1, pages 6-7

Please provide a summary table with a break down of revenue, allocated costs, total margin, and the earnings sharing amount to customers for:
- High deliverability storage
- T1 Delivery and upstream balancing
- Downstream balancing
- Dehydration Service
- Storage Compression
- C1 LT Storage
- LT Peak Storage

Response:

Please see the attachment.

2007 - 2009 Continuity
Long Term Storage Services Account 179-72

Line No.	Particulars ($000's)	2007 Board Approved ($ 000's)	2007 Cost % of Total Revenue	2008 Actual (10^3M^3)	2008 Actual ($ 000's)	2008 Actual vs. Board Approved ($ 000's)	2008 Actual vs. Board Approved (%)	2008 Cost % of Total Revenue	2009 Actual (10^3M^3)	2009 Actual ($ 000's)	2009 Actual vs. Board Approved ($ 000's)	2009 Actual vs. Board Approved (%)	2009 Cost % of Total Revenue
1	Revenue												
2	Long Term Peak Storage	$ 42,058		4,950,347	$81,540	$ 39,482	94%		4,378,235	$ 85,230	$ 43,172	103%	
3	T1 Deliverability and upstream balancing	0			-	0	0%		84	797	797	100%	
4	Downstream Balancing	0			-	0	0%		48	634	634	100%	
5	Dehydration Service	0			-	0	0%		0	1,199	1,199	100%	
6	Storage Compression	0			-	0	0%		0	347	347	100%	
7	C1 LT Storage	0			-	0	0%		0	0	0	0%	
8	High Deliverability Storage	0		208,613	5,554	5,554	100%		1,051,450	18,166	18,166	100%	
9	Total Revenue	42,058		5,158,960	87,093	45,036	107%		5,429,817	106,372	64,315	153%	
10	Costs												
11	Demand												
12	O&M	-5,969	(14%)		(9,767)	-3,799	64%	(11%)		-10,636	-4,668	78%	(10%)
13	Depreciation	-4,538	(11%)		(4,966)	-429	9%	(6%)		-7,312	-2,775	61%	(7%)
14	Property & Capital Tax	-932	(2%)		(953)	-21	2%	(1%)		-1,754	-823	88%	(2%)
15	Return	-3,317	(8%)		(7,279)	-3,962	119%	(8%)		-11,507	-8,190	247%	(11%)
16	Interest	-4,838	(12%)		(7,069)	-2,231	46%	(8%)		-14,220	-9,382	194%	(13%)
17	Income Taxes	-108	(0%)		(3,886)	-3,778	3498%	(4%)		-7,510	-7,402	6853%	(7%)
18	Total Demand	-19,700	(47%)		(33,920)	-14,220	72%	(39%)		-52,939	-33,239	169%	(50%)
19	Commodity												
20	O&M	-955	(2%)		-	955	(100%)	0%		0	955	(100%)	0%
21	UFG	-4,177	(10%)		(4,111)	66	(2%)	(5%)		-4,937	-760	18%	(5%)
22	Compressor Fuel	-3,437	(8%)		(3,695)	(258)	8%	(4%)		-3,690	-253	7%	(3%)
23	Customer Supplied Fuel	7,614	18%		6,110	(1,504)	(20%)	7%		6,173	-1,441	(19%)	6%
24	Total Commodity	-955	(2%)		(1,696)	(741)	78%	(2%)		-2,454	-1,499	157%	(2%)
25	Total Costs (line 12 + line 18 + line 25)	-20,653	(204%)		(35,615)	(14,963)	72%	(41%)		-55,391	-34,738	168%	(52%)
					-								
26	Net Revenue	$ 21,405			51,478	$ 30,073	140%			$ 50,981	$ 29,575	138%	
27	Deferral Sharing (50%)										$ 14,787		

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Ref: Exhibit A, Tab 1, page 13

Please provide the following information with respect to the LPP Litigation Deferral Account:

a) The amounts cleared for each of 2004, 2005, 2006, 2007 and 2008 with a breakdown for legal costs, actuarial advice and cost of analyzing historical billing records.

b) Will the LPP Litigation Deferral Account be required after 2011? If yes, please provide an explanation.

Response:

a) Please see the attachment.

b) No, following disposition of the 2011 balance, the LPP Litigation deferral account will not be required.

Historical Balances in LPP Litigation Deferral Account from 2004 to 2008

Line No.	Description ($000's)	2004	2005	2006	2007	2008
1	External Legal Fees	$16	$716	$230	$83	$365
2	External Billing Record Costs	$40	$60	$68	$62	$164
3	External Newspaper Notification Costs					$59
4	Interest (Current Year)	$0	$6	$5	$1	$4
5	Additional Interest (Jan 1 to Disp)	$1	$24	$15	$4	$5
6	Total	$57	$807	$318	$151	$598

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Ref: Exhibit A, Tab 1, page 14

In the Enbridge case, the Supreme Court ruled that the LPP charge constituted a criminal interest rate. How long after that decision was issued did Union implement a new LPP methodology which addressed the court ruling? If there was a delay, please explain why.

Response:

In April 1994, Gordon Garland launched a class action proceeding against Enbridge Gas Distribution ("Enbridge") alleging that some of the LPPs collected from customers may have exceeded the Criminal Code limit on interest rates. The lawsuit sought damages in excess of $112 million. Enbridge, in turn, filed a Statement of Defense and brought a motion for summary judgment in 1994. The Ontario Court of Justice granted the Company's motion, dismissing the action in February 1995. Mr. Garland challenged this ruling and was ultimately granted leave to appeal to the Supreme Court of Canada.

In response to Mr. Garland's appeal, in October 1998, the Supreme Court of Canada ruled that Enbridge's LPP charge did constitute interest for the provision of credit. The Supreme Court of Canada returned the matter to the trial court in Ontario for disposition. Once again, this prompted an extensive legal review which ultimately led Mr. Garland to initiate a subsequent appeal with the Supreme Court of Canada. In April 2004, the Supreme Court of Canada ruled in favour of Mr. Garland and determined that Enbridge was liable to refund any LPP amounts paid by Mr. Garland in excess of the Criminal Code limit since April 1994. The Supreme Court of Canada returned the matter to Ontario Superior Court for disposition.

In light of these court decisions regarding LPPs and section 347 of the Criminal Code of Canada, the Board initiated a review of its policy with respect to LPPs for gas and electric utilities in a letter dated January 30, 2001. Pursuant to that review, a Board staff discussion paper was issued on April 4, 2001. Subsequent to its review of the comments received on the discussion paper, the Board, on October 4, 2001, indicated that it expected Union to review its LPP policies in the context of its Customer Review Process and to propose appropriate changes. In response to this direction, Union sought and received Board approval to change its LPP charge from 5% to 2% in RP-2001-0029 (Union's 2001 and 2002 Customer Review Process).

Union proposed to further reduce its LPP charge from 2% to 1.9% in RP-2002-0130 (2003 Customer Review Process). The Board approved Union's proposal and, on June 13, 2003, issued the RP-2002-0130 rate order implementing rates July 1, 2003 which included the LPP charge of 1.9%.

In its 2004 rate case (RP-2003-0063), Union received approval to standardize its LPP charge (1.9%) across all in-franchise rate classes (North and South).

In September of 2004, the Board issued a letter recommending a move to a single, uniform LPP charge for gas and electric distributors of 1.5%. Union, as part of EB-2005-0211 (2003 Earnings Sharing Mechanism/2004 Deferral Account Disposition / 2005 DSM), sought and received approval to make this change. Union has proposed no further changes to its LPP charge.

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Ref: Exhibit A, Tab 1, page 19

The evidence indicates that in accordance with previous Board-approved practice, Union is proposing to clear the recorded SSM balance related to unaudited 2009 DSM activities. Please indicate when the audited balances will be available and filed with the Board.

Response:

On June 23, 2010 Union filed a letter with the Board stating that Union has concerns with the audit of Union's 2009 DSM results. Please see the attachment.

As noted in the letter, Union intends to file the DSM audited results by August 31, 2010.

uniongas
A Spectra Energy Company

June 23, 2010

Ontario Energy Board
2300 Yonge Street
Suite 2700
Toronto, Ontario
M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

Re: Union Gas Limited – 2009 Demand Side Management Audit and Results

Dear Ms. Walli:

Union is writing this letter to inform the Board that Union will not be in a position to file the Final 2009 Audit Report, the 2009 Annual Report, and the Summary of Results and Responses Report on June 30, 2010 as outlined in Section 2.1.12 of the Board's Reporting and Record Keeping Requirement Rule.

On April 1, 2010, Union filed its Draft Demand Side Management 2009 Annual Report with the Board. A copy of the Report was also provided to the DSM Consultative and the Auditor, ECONorthwest.

On May 17, 2010 ECONorthwest provided the draft Audit Report to Union and Union's Evaluation and Audit Committee ("EAC"). On receipt of the Auditor's report, Union expressed concerns with report's results and has been in consultation with the Auditor and EAC in an effort to resolve its concerns. Union continues to discuss these concerns with the Auditor and EAC.

Union proposes to file the Final 2009 Audit Report, the 2009 Annual Report and the Summary of Results and Responses Report with the Board on or before August 31, 2010. This timing will allow Union the opportunity to resolve the outstanding elements of the Audit and finalize the required reports.

Should you have any questions please contact me at (519) 436-5476.

Yours truly,

[original signed by]

Chris Ripley
Manager, Regulatory Applications

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Ref: Exhibit A, Tab 1, pages 20-21

Please provide the following information with respect to the International Financial Reporting Standards Conversion Deferral Account.

a) A detailed breakdown of Consulting costs for 2008 and 2009.

b) A detailed breakdown of employee costs for 2009.

c) Please provide a breakdown of the IFRS Conversion Costs between capital and operating expenditures.

Response:

a) Consulting Costs

The following is a listing of consultants that were engaged during 2008 and/or 2009 to assist with the IFRS conversion project.

- Ernst and Young LLP – scoping the project, identifying areas of concern, interpretation of standards, and project management.
- Deloitte and Touche – accounting advice and confirmation of accounting policies
- Towers Watson (formerly Towers Perrin) – assist with determining the required pension adjustment and disclosures.
- Fosters and Associates Inc. – assist with componentization of Plant Assets.

Table 1 provides a breakdown of consulting costs incurred each year by consultant.

Table 1
IFRS Consulting Costs by Year
($ Millions)

	2008	2009	Total
Ernst and Young LLP	$ 0.878	$ 0.979	$ 1.857
Deloitte and Touche	0.026	0.130	0.156
Towers Watson		0.039	0.039
Fosters and Associates Inc.		0.127	0.127
Total	$ 0.904	$ 1.275	$ 2.179

b) Employee Costs

Table 2 provides a detailed breakdown of employee costs incurred by year.

Table 2
IFRS Employee Costs by Year
($ Millions)

	2008	2009	Total
Salaries and wages	$ 0.055	$ 0.281	$ 0.336
Training	0.002	0.011	0.013
Travel	0.004	0.045	0.049
Total	$ 0.061	$ 0.337	$ 0.398

During 2008 and 2009, 6 employees were engaged on the IFRS project. A description of how each employee contributed to the project is provided below.

- Throughout 2008 and 2009 one employee from the Corporate Accounting Research Group (Spectra Corporate - Houston) was engaged on the IFRS Project on a full time basis in a project management capacity. This employee's previous role was not replaced/backfilled. An allocation of this employee's costs was charged to the project in 2008 and 2009.
- Throughout 2008 and 2009 one full time employee from the Union Financial Reporting group (Finance) was engaged on the IFRS Project on a full time basis. This employee's previous role was replaced through an external hiring. This employee's costs were not charged to the project.
- For part of 2009 one employee was engaged on the IFRS Project on a full time basis. This employee was from the Union Plant Accounting group (Finance). This employee's previous role was backfilled through an existing resource. This employee's costs were not charged to the project.
- One full time employee was engaged on the project for the month of December 2008 and throughout 2009. This employee was hired externally. This employee's incremental costs were charged to the project during 2008 and 2009.
- One full time employee was engaged on the IFRS Project throughout 2009 and was also hired externally. This employee's incremental costs were charged to the project during 2009.
- One employee was engaged on the IFRS Project on a full time basis for a period of time during 2009. This employee was from the Union O&M Accounting group (Finance). This employee's previous role was backfilled through a contract position. The contract employee's costs were charged to the project during the relevant period in 2009.

In 2010 each of the referenced above employees returned to their previous roles or have taken other roles within the organization.

During 2008 and 2009 numerous other employees from the Union Finance and Operating Departments were engaged on a part-time basis on the IFRS Project while still performing other, non-IFRS transition related duties. None of these employee's costs were charged to the project during 2008 and 2009. None of the positions were backfilled in any manner and the time spent between IFRS and non-IFRS related duties was managed with existing resources.

c) System Upgrade Costs

Table 3 provides a detailed breakdown of system upgrade costs incurred by year. These conversion costs are capital expenditures; all other costs incurred are operating expenditures.

Table 3
IFRS System Upgrade Costs by Year
($ Millions)

	2008	2009	Total
Computer software	$ 0.932	$ 0.023	$ 0.955
SAP Consulting costs	0.021	0.310	0.331
Salaries and wages		0.119	0.119
Travel		0.007	0.007
Total	$ 0.953	$ 0.459	$ 1.412

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Ref: Exhibit A, Tab 1, pages 23-24

Preamble: Union notes that it will track the ratepayer credit in Deferral Account 179-122 based on a sale date later than March 1, 2010. The Board's Decision in EB-2008-0411 stated, in paragraph 20, "The Board finds that the account should record the impact of removing the St. Clair Transmission Line (and related St. Clair River Crossing) from rates (including all rate base and OM&A consequences) effective March 1, 2010 until such date that the Board adjusts Union's rates to remove the St. Clair Line. This is consistent with the Board's determination that the net gain on the sale should be determined as of March 1, 2010 and is appropriately flexible to allow the Board to adjust Union's rates to remove the St. Clair Line at an appropriate date."

Please provide the following information with respect to Accounts 179-121 and 179-122.

a) Please confirm whether or not Union is recording the impact of removing the St. Clair Line from rates as of March 1, 2010 as ordered by the Board in EB-2008-0411.

b) Please provide an update on the status of the Dawn Gateway Pipeline project.

Response:

a) Confirmed. Union is recording the impact of removing the St. Clair Line from rates in deferral account 179-122 as of March 1, 2010.

b) At this time, the status of the Dawn Gateway project is unchanged from Union's prefiled evidence.

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Ref: Exhibit A, Tab 2

Please provide the December 31, 2009 audited consolidated financial statements of Union Gas Limited.

Response:

Attached is the Union Gas 2009 annual report. This report is also found online at www.sedar.com.

Filed: 20100628
Exhibit B1.08
Attachment

unionigas
A Spectra Energy Company

uniongas
A Spectra Energy Company

Julie Dill
President

March 17, 2010

Dear Shareholder:

I am pleased to forward you a copy of the Union Gas Limited (Union Gas) 2009 annual report. It contains Union Gas' management's discussion and analysis, consolidated financial results, statement of corporate governance and corporate directory. I invite you to visit www.sedar.com for electronic versions of Union Gas' consolidated financial statements, management's discussion and analysis, and other filings throughout the year.

Julie Dill
President

This discussion and analysis of Union Gas Limited for the twelve months ended December 31, 2009, should be read in conjunction with the audited consolidated financial statements and accompanying notes. The terms ("we," "our", "us" and "Union Gas") as used in this report refer collectively to Union Gas Limited and its subsidiary unless the context suggests otherwise. These terms are used for convenience only and are not intended as a precise description of any separate legal entity within Union Gas. The results reported herein have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are presented in millions of Canadian dollars except where noted. Additional information relating to us, including our most recent Annual Information Form, can be found at www.sedar.com.

FORWARD LOOKING INFORMATION

This Management's Discussion and Analysis (MD&A) includes forward-looking statements. Forward-looking statements are based on management's beliefs and assumptions. These forward-looking statements are identified by terms and phrases such as: anticipate, believe, intend, estimate, expect, continue, should, could, may, plan, project, predict, will, potential, forecast, and similar expressions. Forward-looking statements involve risks and uncertainties that may cause actual results to be materially different from the results predicted. Factors that could cause actual results to differ materially from those indicated in any forward-looking statement include, but are not limited to:

- local, provincial and federal legislative and regulatory initiatives that affect cost and investment recovery, have an effect on rate structure, and affect the speed at and degree to which competition enters the natural gas industries;
- outcomes of litigation and regulatory investigations, proceedings or inquiries;
- weather and other natural phenomena, including the economic, operational and other effects of storms;
- the timing and extent of changes in commodity prices and interest rates;
- general economic conditions which can affect the long-term demand for natural gas and related services;
- potential effects arising from terrorist attacks and any consequential or other hostilities;
- changes in environmental, safety and other laws and regulations;
- results of financing efforts, including the ability to obtain financing on favourable terms, which can be affected by various factors, including credit ratings and general economic conditions;
- increases in the cost of goods and services required to complete capital projects;
- declines in the market prices of equity and debt securities and resulting funding requirements for defined benefit pension plans;
- growth in opportunities, including the timing and success of efforts to develop pipeline, storage, and other infrastructure projects and the effects of competition;
- the performance of transmission, storage and distribution facilities;
- the extent of success in connecting natural gas supplies to transmission systems and in connecting to expanding gas markets;
- the effects of accounting pronouncements issued periodically by accounting standard-setting bodies;
- conditions of the capital markets during the periods covered by the forward-looking statements; and
- the ability to successfully complete merger, acquisition or divestiture plans; regulatory or other limitations imposed as a result of a merger, acquisition or divestiture; and the success of the business following a merger, acquisition or divestiture.

In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than we have described. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

GENERAL

Union Gas is a major Canadian natural gas storage, transmission and distribution company based in Ontario with nearly 100 years of experience and service to customers. The distribution business serves 1.3 million residential, commercial and industrial customers in more than 400 communities across northern, southwestern and eastern Ontario. Union Gas' growing storage and transmission business offers premium storage and transportation services to customers at the Dawn Hub (Dawn). Dawn is a storage facility located in Dawn, Ontario just south of Sarnia, Ontario and is the largest underground storage facility in Canada and one of the largest in North America. It offers customers an important link in the movement of natural gas from Western Canadian and U.S. supply basins to markets in central Canada and the northeast U.S.

Our system consists of approximately 60,000 kilometres of distribution main and service pipelines. Distribution pipelines carry or control the supply of natural gas from the point of local supply to customers. Our underground natural gas storage facilities have a working capacity of approximately 156 billion cubic feet (Bcf) in 23 underground facilities located in depleted gas fields. The transmission system consists of approximately 5,000 kilometres of high-pressure pipeline and six mainline compressor stations.

Union Gas' common shares are held by Great Lakes Basin Energy L.P., a wholly-owned limited partnership of Westcoast Energy Inc. (Westcoast). Westcoast is a wholly-owned subsidiary of Spectra Energy Corp (Spectra Energy).

Spectra Energy is a Delaware corporation that is a public company in the United States and whose shares are listed on the New York Stock Exchange.

Our board of directors is comprised of at least one-third independent directors with the remainder consisting of officers of Union Gas, Westcoast or Spectra Energy and there is no audit committee of the board. The function of an audit committee is carried out at the level of Spectra Energy during the review of its consolidated financial statements.

HIGHLIGHTS

	For the Years Ended December 31		
($millions except where noted)	**2009**	2008	2007
Income			
Total operating revenues	**2,019**	2,130	2,063
Earnings applicable to common shares	**173**	175	140
Dividends			
Dividends on preference shares	**2**	5	5
Dividends on common shares	**165**	115	36
Assets and long-term liabilities			
Total assets	**5,446**	4,856	4,413
Total long-term liabilities	**2,874**	2,505	2,056
Volumes of gas (10^6m^3)[1]			
Distribution volumes	**12,849**	13,844	13,878
Transportation volumes	**22,668**	25,181	23,716
Total throughput	**35,517**	39,025	37,594
Customers *(thousands)*	**1,325**	1,309	1,289
Heating degree days[2] *(degree Celsius)*			
Actual	**4,130**	4,161	3,928
Normal[3]	**4,034**	4,070	4,139

[1] 10^6m^3 equals millions of cubic meters. One cubic meter is equivalent to 35.31467 cubic feet.
[2] A heating degree day is a measure of temperature that identifies the need for heating. A degree day occurs when the average temperature falls below 18 degrees Celsius. A temperature of zero degrees Celsius equals 18 heating degree days.
[3] As per OEB approved methodology used in setting rates.

RESULTS OF OPERATIONS

	For The Three Month Period Ended December 31			For The Year Ended December 31		
($millions)	2009	2008	**Increase (Decrease)**	2009	2008	**Increase (Decrease)**
Gas sales and distribution revenue	458	598	**(140)**	1,684	1,852	**(168)**
Cost of gas	276	422	**(146)**	1,026	1,177	**(151)**
Gas distribution margin	182	176	**6**	658	675	**(17)**
Storage and transportation revenue	71	70	**1**	299	244	**55**
Other revenue	11	11	-	36	34	**2**
	264	257	**7**	993	953	**40**
Expenses	163	152	**11**	608	587	**21**
Other (income) and expenses, net	2	(3)	**5**	2	(3)	**5**
Interest expense	41	41	-	160	148	**12**
Income taxes	8	12	**(4)**	48	41	**7**
Net income	50	55	**(5)**	175	180	**(5)**
Earnings applicable to common shares	50	54	**(4)**	173	175	**(2)**

Three month period ended December 31, 2009 compared to three month period ended December 31, 2008

Gas sales and distribution revenue. The $140 million decrease was primarily driven by:

- a $143 million decrease from lower natural gas prices passed through to customers without a mark-up, and
- a $40 million decrease in customer usage of natural gas due to warmer weather and a slower economy partially offset by
- a $21 million increase due to growth, and
- a $19 million increase due to lower earnings to be shared with customers.

Cost of gas. The $146 million decrease was primarily driven by:

- a $143 million decrease due to lower natural gas prices passed through to customers without a mark-up, and
- a $31 million decrease in customer usage of natural gas due to warmer weather and a slower economy, partially offset by
- a $18 million increase due to growth.

Expenses. The $11 million increase was primarily due to higher expenses related to expansion projects.

Income taxes. The $4 million decrease was primarily due to a decrease in pre-tax income.

Twelve month period ended December 31, 2009 compared to twelve month period ended December 31, 2008

Gas sales and distribution revenue. The $168 million decrease was primarily driven by:

- a $157 million decrease due to lower natural gas prices passed through to customers without a mark-up,

- a $76 million decrease in customer usage of natural gas due to a slower economy, and
- a $11 million decrease due to a settlement on 2008 earnings to be shared with customers, partially offset by
- a $60 million increase due to growth, and
- a $12 million increase due to lower earnings to be shared with customers.

Cost of gas. The $151 million decrease was primarily driven by:

- a $157 million decrease due to lower natural gas prices passed through to customers without a mark-up, and
- a $62 million decrease in customer usage of natural gas due to a slower economy, partially offset by
- a $52 million increase due to growth, and
- a $6 million increase in fuel used in operations[4].

Storage and transportation revenue. The $55 million increase was attributable to higher revenues related to growth of the storage system and an increase in short-term transportation services provided to customers.

Expenses. The $21 million increase was primarily due to an increase in depreciation resulting from assets placed into service and higher expenses related to expansion projects.

Interest expense. The $12 million increase was primarily due to an issuance of long-term debt in September 2008.

Income taxes. The $7 million increase was primarily due to a higher effective tax rate.

QUARTERLY RESULTS

($millions)	**Q1 2008**	**Q2 2008**	**Q3 2008**	**Q4 2008**	**Q1 2009**	**Q2 2009**	**Q3 2009**	**Q4 2009**
Gas sales and distribution revenue	733	299	222	598	788	254	184	458
Storage and transportation revenue	64	48	62	70	83	72	73	71
Other revenue	7	8	8	11	6	9	10	11
Total operating revenues	804	355	292	679	877	335	267	540
Net income	101	22	2	55	108	6	11	50
Net earnings applicable to common shares	100	20	1	54	107	6	10	50

Seasonal Trends

The natural gas distribution business is highly seasonal due to volume-based rates and the significant effect of the winter heating season on volumes. This is typically reflected in strong first quarter results, second and third quarters that show either small profits or losses and strong fourth quarter results, subject to the impact of weather variations relative to demand during the winter heating season. Changes in natural gas rates that are charged to customers result in corresponding changes in gas sales and distribution revenue. These increases or decreases in gas sales revenue are completely offset in the cost of gas, as a result of the associated regulatory recovery and refund mechanisms.

[4] Fuel used in operations includes customer supplied fuel, compressor fuel and gas measurement variances.

RATE REGULATION

Union Gas is regulated by the Ontario Energy Board (OEB) pursuant to the provisions of the *Ontario Energy Board Act* (1998), which is part of a package of legislation known as *The Energy Competition Act* (1998). This legislation provides for different forms of regulation and competition in the energy (electricity and natural gas) industry in Ontario. We are subject to regulation with respect to the rates that we may charge our customers, system expansion or facility abandonment, adequacy of service, public safety aspects of pipeline system construction and certain accounting practices.

In February 2009, the Ontario Superior Court of Justice dismissed a class action claim commenced against us, and approved settlement of another class action claim, both relating to the OEB-approved late payment fees charged by Union Gas prior to 2002. The amount of the settlement was $9 million, which includes $5 million to be paid in three equal, annual instalments to the Winter Warmth Fund (administered by the United Way), $3 million in legal fees, disbursements and other expenses, and less than $1 million paid to the Class Proceedings Fund (operated by the Law Foundation of Ontario). We will be seeking OEB approval during 2010 to recover the full cost of the settlement plus interest and the related legal costs from ratepayers. Based on the full recovery of a similar settlement allowed by the OEB for Enbridge Gas Distribution, we do not expect a material impact on us.

Distribution Rates

In November 2006, the OEB issued a decision on the regulation of rates for gas storage services in Ontario (Storage Forbearance Decision). As a result of its finding that the market for storage services is competitive, the OEB does not regulate the rates for storage services to ex-franchise customers[5] or the rates for new storage services to in-franchise customers[6]. Existing storage services to in-franchise customers will continue to be provided at cost-based rates. The decision creates an unregulated storage operation within Union Gas and provides the framework required to support new storage investments.

Incentive Regulation

Our distribution rates, effective January 1, 2008 are set under a multi-year incentive regulation framework. The incentive regulation framework establishes new rates at the beginning of each year through the use of a pricing formula rather than through the examination of revenue and cost forecasts. The incentive regulation framework allows for annual inflationary rate increases, offset by a productivity factor of 1.82% that is fixed for each of the next five years. The framework also allows for rate increases in the small volume customer classes where average use is declining, a five-year term, certain adjustments to base rates, the continued pass-through of gas commodity, upstream transportation and demand side management costs, an allowance for unexpected cost changes that are outside of management's control, earnings sharing between Union Gas and our ratepayers beyond specified earnings levels and equal sharing of income tax changes between Union Gas and ratepayers.

The incentive regulation framework included a provision for a review of that framework if we experienced a variance of 3% or more between our actual utility return on equity (ROE) as normalized for weather and the benchmark utility ROE determined by the OEB. Our weather-normalized utility ROE for 2008 exceeded the upper review threshold, and accordingly, we filed for a review by the OEB in April 2009.

In June 2009, we reached a settlement agreement with our stakeholders that was subsequently approved by the OEB. The settlement amends the terms of the original incentive regulation framework. The amendment replaces the provision for a review of the framework with a 90/10 sharing mechanism, in favour of customers, for any weather normalized utility ROE of 3% or more above the benchmark utility ROE for the year and is retroactive to 2008. Accordingly, we recorded an $11 million charge to reflect the credit to customers of 90% of our 2008 utility earnings that exceeded the benchmark utility ROE by 3% or more. No other changes to the incentive regulation framework were made.

---

[5] Ex-franchise customers refer to those customers that are not served directly through our facilities and generally are market participants such as marketers, other utilities and power customers served by other utilities.
[6] In-franchise customers refer to those customers that are within our franchise area and served through our facilities.

In September 2009, we applied for approval of 2010 regulated distribution, storage and transmission rates, determined pursuant to the incentive regulation framework, which was approved by the OEB as proposed. The approved delivery rate increase is less than 1% for a typical residential customer in our service territory effective January 1, 2010.

Non-Commodity Deferral Account Disposition

In March 2009, we applied for the annual disposition of the 2008 non-commodity deferral account balances which was approved by the OEB as proposed. The combined impact on customers was a credit of approximately $22 million which will be refunded through future rates.

Commodity Rates

Union Gas and the OEB have a mechanism in place to change gas commodity rates on a quarterly basis (Quarterly Rate Adjustment Mechanism), to ensure that customers' rates reflect future expected prices to the extent reasonably possible. The difference between the approved and the actual cost of gas incurred is deferred for future recovery from or repayment to customers. These differences are included in quarterly gas commodity rates and recovered from or refunded to customers over the subsequent twelve months and are also subject to review and approval by the OEB on an annual basis. This allows us to adjust customer rates closer to the time of incurrence.

During 2009, the OEB conducted a review of the Quarterly Rate Adjustment Mechanism (QRAM) and other related practices of the Ontario natural gas utilities. The proceedings focused primarily on the standardization of certain aspects of the QRAM. A decision was issued in September, with no material impact on the Company.

Cost of Capital

In December 2009, the OEB issued its policy report on the Cost of Capital for Ontario's Regulated Utilities. In that report, the OEB determined that Union Gas' utility ROE should be increased by approximately 125 basis points. Union Gas is currently assessing how and when that increase might be implemented in light of its multi-year incentive regulation parameters.

Sale of the St. Clair Line

In December 2008, we filed an application with the OEB to sell our St. Clair Line to the Dawn Gateway Pipeline Limited Partnership (DGP). The St. Clair Line runs approximately 12 kilometres in the Township of St. Clair, and was constructed in 1988 to bring new and additional gas supplies to Dawn. The need for the St. Clair Line was largely replaced by the construction of the Vector Pipeline in 2005, such that the St. Clair Line is underutilized.

Spectra Energy and DTE Pipeline Company, through various affiliates, have formed a 50:50 joint venture that proposes to offer a point-to-point transportation service from the Belle River Mills storage facility in Michigan to Dawn. As part of this joint venture, DGP was formed to own and operate the St. Clair Line and a new 17 km section of pipeline to be constructed from the eastern end of the St. Clair Line to Dawn to support this new transportation service. In November 2009, the OEB approved the sale of the St. Clair Line from Union Gas to DGP, with such approval expiring on December 31, 2013. The OEB also determined that the sale price for ratemaking purposes should be set at a value higher than net book value as proposed by Union Gas and that ratepayers should receive a credit for the cumulative under-recovery in rates of the St. Clair Line from 2003 to the date of sale. We filed the calculation of the cumulative under-recovery amount with the OEB in December 2009. A decision on the amount of the ratepayer credit was issued by the OEB in March 2010, establishing the amount of the credit as $6.4 million. The OEB also directed Union Gas to record the effect of removing the assets, revenues and costs of the St. Clair Line from regulated operations in a deferral account for disposition later this year.

The sale of the St. Clair Line is contingent on DGP receiving OEB approval to construct a new 17 km section of pipeline from the eastern end of the St. Clair Line to Dawn. The sale is also contingent on DGP receiving OEB approval for a new light-handed regulatory framework for the Ontario-based portion of the new transportation service they propose to offer. In March 2010, a hearing was held and a decision received from the OEB, approving both of these items.

LIQUIDITY AND CAPITAL RESOURCES

We manage cash to maximize value while assuring appropriate amounts of cash are available, as required. We invest our available cash in high-quality money market securities. Such money market securities are designed for the safety of principal and for liquidity, and accordingly do not include equity-based securities. We do not invest in asset-backed commercial paper.

We meet our short-term cash requirements through funds generated from operations, issuance of short-term debt and access to our lines of credit. Long-term capital requirements are met through the combination of cash flow from operations, issuance of long-term debt and preference shares.

Changes in Cash Flow

($millions)	**2009**	2008
Operating activities	**642**	162
Investing activities	**(247)**	(404)
Financing activities	**(361)**	242

Operating Activities

The primary factors impacting cash flow from operations include fluctuations in weather, commodity rates, and gas prices, as well as the timing of cost recovery in regulated rates. Union Gas' heating season extends from approximately November through March. We begin the heating season with near-capacity natural gas inventory levels which are drawn throughout the heating season. Inventory levels decrease from December and thus contribute to a positive cash flow from operations during the first quarter. After the heating season ends, inventory is replenished for the next heating season. During the third quarter, gas inventory injections typically exceed withdrawals, negatively affecting cash flows. During the fourth quarter inventory decreases as withdrawals exceed injections.

Many of our customers purchase gas directly from marketers. Marketers typically deliver gas to us evenly throughout the year, whereas most of their customers use gas based on seasonality. As part of our normal billing process, we bill the marketers' customers as gas is used and remit this cash to the marketer when gas is delivered to us. Therefore, during the first and fourth quarters of the year, customers typically use more gas than is delivered to us and we collect cash from the marketers' customers creating a positive cash flow. During the second and third quarters, marketers deliver more gas than their customers use, thus creating a significant cash outflow. These are normal seasonal trends.

Cash flows from operations have improved for 2009 compared to 2008 primarily due to lower natural gas prices. These lower prices have led to lower accounts receivable balances, lower inventory costs, and costs recovered through rates which exceed the actual cost of gas, resulting in an overpayment from customers to be refunded in future periods.

Investing Activities

The table below is a summary of capital expenditures:

	2010	2009	2008
	(estimated)		
Storage and transmission projects	36%	32%	55%
Distribution	53%	57%	38%
General equipment	11%	11%	7%
	100%	100%	100%
Total capital expenditure ($millions)	$257	$247	$404

The table below is a summary of capital project type:

	2010	2009	2008
	(estimated)		
Maintenance projects[7]	92%	92%	57%
Expansion projects	8%	8%	43%
	100%	100%	100%

Capital expenditures for 2009 were significantly lower as compared to 2008 due primarily to the significant expansion projects that came into service in 2008. Maintenance and expansion expenditures for 2010 are expected to be consistent with the 2009 level of spending. The 2010 expansion capital expenditures reflect our continued assessment of the timing of projected long-term market requirements and general economic conditions. Based on our current assessment, we believe that expansion opportunities will continue to exist in the future. See Outlook – Storage and Transportation Project Developments for further discussion.

As outlined in the financing activities discussion that follows, we have sufficient financing available to meet our investing requirements. Management expects that financing of 2010 projects will be done through a combination of cash generated from operations and available debt facilities.

Financing Activities

We have the following financing arrangements in place:

- A shelf prospectus was filed in August 2008 that permits the issuance of medium-term notes, in one or more series, up to an aggregate principal amount of $700 million and for terms of up to 30 years with maturities of not less than one year from the date of issue. The shelf will expire in September 2010. As of December 31, 2009, $400 million was available.
    - In July 2009, we retired, at par, $24 million of a 1989 senior sinking fund debenture at 10.75% per annum.
    - In October 2009, we made a repayment of $4 million on a 1988 Series II debenture at 11.55% per annum.
    - The indentures and agreements relating to our long-term debt obligations contain covenants limiting the payment of dividends. Certain debenture issues limit the payment of dividends such that dividends are not permitted, with certain exceptions, if immediately thereafter all indebtedness for money borrowed would exceed 75% of the total capitalization of Union Gas. We are in compliance with these provisions.

[7] Maintenance projects include costs incurred for new customer attachments. Maintenance projects also include expansion capital for in-franchise customers.

- Union Gas has a $500 million committed credit facility available to help meet its short-term financing needs. As of December 31, 2009, $461 million was available.
  - Our $500 million committed credit facility expires in July 2012 and includes a provision which requires us to repay all borrowings under the facility for a period of two days during the second quarter of each year. This facility is intended to be used primarily to manage the significant seasonal changes in working capital experienced by Union Gas as a result of natural gas purchases and sales. Most of the short-term cash requirements are funded through issuing commercial paper at rates generally below the lender's prime rate.
  - Our short-term borrowing levels fluctuate significantly during the year due to the funding of construction activities, the timing of long-term debt issues, maturities, other financing activities, and the seasonality of our business. Our 2009 short-term borrowings peaked in December at approximately $39 million.
- Union Gas has a $15 million committed 364 day credit facility which is primarily used for the issuance of letters of credit. As of December 31, 2009, $11 million was available.
  - In August 2009, the previous $25 million uncommitted operating facility was replaced by a $15 million committed 364 day credit facility.

In order to maintain the common equity component of the capital structure at a level no greater than that approved by the OEB, we typically pay a quarterly dividend to our parent company. During 2009, we paid a quarterly dividend to our parent of approximately $16 million in the first three quarters (2008 – approximately $16 million each quarter). In December 2009, we declared an additional $116 million dividend to our parent to be paid in the first quarter of 2010 (2008 - $50 million paid in the fourth quarter of 2008).

OUTSTANDING SHARES

	2009	2008
Redeemable Preferred Shares		
Class A, Series A, 5.5%	**47,672**	47,672
Class A, Series C, 5.0%	**49,500**	49,500
Preferred Shares		
Class A, Series B, 6.0%	**90,000**	90,000
Class B, Series 10, 4.88%	**4,000,000**	–
Class B, Series 11, 4.79%	**–**	4,000,000
Common Shares	**57,822,650**	57,822,650

On January 1, 2009, all of the holders of the Cumulative Redeemable Convertible Class B Preference Shares, Series 11 (Series 11 Shares) exercised their option to convert their shares back into 4.88% Cumulative Redeemable Convertible Class B Preference Shares, Series 10 (Series 10 Shares). Union Gas may redeem at any time all, but not less than all, of the outstanding Series 10 Shares. On January 1, 2014, holders of Series 10 Shares have the right at their option, to convert all or any of the Series 10 Shares into Series 11 Shares. The dividend rate on the Series 10 Shares is floating at an annual rate equal to 80% of the prime rate until December 31, 2013.

In February 2009, all of the common shares of Union Gas were transferred to Great Lakes Basin Energy L.P., a wholly-owned limited partnership of Westcoast.

FINANCIAL CONDITION

Ratings Summary

	Standard & Poor's	DBRS
Commercial paper	A – 1 (low)[8]	R – 1 (low)
Debentures	BBB+	A
Preferred shares	P – 2 (low)[9]	Pfd – 2

Our credit ratings remain unchanged from those reported in the 2008 Annual Report.

CONTRACTUAL OBLIGATIONS

The table below is a summary of our contractual payment obligations, due by period.

($millions)	Total	2010	2011-2012	2013-2014	Thereafter
Long-term debt	2,212	222	250	150	1,590
Redeemable preference shares	5	–	–	–	5
Operating leases	30	6	11	11	2
Purchase obligations[10]	1,167	776	163	140	88
Environmental obligations[11]	110	15	83	4	8
Contributions to employee future benefit plan[12]	40	40	–	–	–
Total contractual obligations[13]	3,564	1,059	507	305	1,693

[8] Represents Canadian National Scale Commercial Paper Rating. The credit rating for commercial paper disclosed in the 2008 Annual Report and Annual Information Form represented the Global Scale Rating.

[9] Represents Canadian Preferred Stock Rating.

[10] Includes: firm capacity payments that provide us with uninterrupted firm access to natural gas transportation and storage; contractual obligations to purchase physical quantities of natural gas; contracts for software and consulting or advisory services; contractual obligations for engineering, procurement and construction costs for pipeline projects.

[11] Includes capital, operating and maintenance expenditures related to the comprehensive certificate of approval.

[12] We are unable to reasonably estimate employee future benefit plan contributions beyond 2010 due primarily to uncertainties about market performance of plan assets.

[13] Excludes cash obligations for asset retirement activities. The amount of cash flows to be paid to settle the asset retirement obligations is not known with certainty as Union Gas may use internal resources or external resources to perform retirement activities. Amounts also exclude reserves for litigation, environmental remediation, annual insurance premiums that are necessary to operate the business and regulatory liabilities because Union Gas is uncertain as to the amount and/or timing of when cash payments will be required. Also, amounts exclude future income taxes and investment tax credits on the Consolidated Balance Sheets since cash payments for income taxes are determined based primarily on taxable income for each discrete fiscal year

RELATED PARTY TRANSACTIONS

We purchase gas and transportation services at prevailing market prices and under normal trade terms from commonly controlled companies. During the year ended December 31, 2009, these purchases totalled $1 million (2008 – $1 million). Union Gas also provides storage and transportation services to commonly controlled companies under normal trade terms. Storage and transportation services provided to commonly controlled companies totalled $2 million during 2009 (2008 – less than $1 million).

We provided administrative, management and other services to commonly controlled companies totalling $9 million (2008 – $8 million), which were billed and recovered at cost. Charges from related parties for administrative and other goods and services were $7 million (2008 – $6 million).

At December 31, 2009 we have receivable balances of $4 million (2008 – $2 million) and payable balances of $5 million (2008 – $6 million) with commonly controlled companies and receivable balances of $2 million (2008 – less than $1 million) and payable balances of $1 million (2008 – nil) with companies under significant influence, all of which are recorded in accounts receivable and accounts payable, respectively.

During 2009, we obtained from and provided unsecured loans to Westcoast. The balance outstanding on these loans at December 31, 2009 was a $6 million receivable (2008 – $115 million payable). These loans are classified as cash equivalents in 2009. Interest received on these loans during 2009 totalled less than $1 million (2008 – less than $1 million) and interest paid on these loans totalled less than $1 million in 2009 (2008 – $2 million). Interest on these loans is calculated based on the monthly average of 30-day banker's acceptance rates.

GAS SUPPLY

The gas supply portfolio of Union Gas primarily includes contracts with pricing mechanisms that reflect monthly and daily variations in the price of gas. These contracts are indexed to either the New York Mercantile Exchange natural gas futures contracts, the Canadian Gas Price Reporter that publishes Alberta index prices or the Platt's Inside FERC Dawn Monthly Index.

Gas costs are included in customer rates based on forecasted gas supply approved by the OEB. Differences between the OEB approved reference prices and the actual cost of gas purchased, including the impact of the indexed purchase prices, are recovered from or refunded to customers through the quarterly rate adjustment mechanism and subsequently reviewed and approved by the OEB on an annual basis.

During 2009, the OEB reviewed the approval process for new long-term upstream transportation capacity and the QRAM. The OEB issued guidelines dated April 2009 that set out a methodology for gas utilities to seek OEB pre-approval for new long-term upstream transportation capacity contracts. The OEB issued a decision dated September 2009 that affirmed the appropriateness of the quarterly rate adjustment mechanism with certain minor changes.

OUTLOOK

Gas Sales and Distribution

Natural gas pricing is being affected by strong domestic supply growth and increased liquid natural gas deliveries to North America. Natural gas prices were relatively low and exhibited low price volatility in 2009 and are projected to remain low for 2010.

We expect that the long-term demand for natural gas in North America will continue to grow. However, given the effects of the economic recession, retail and industrial gas usage by Union Gas' distribution customers decreased in 2009 and we expect that this usage will remain relatively flat in 2010.

The continued impact of low economic growth is expected to negatively impact customer growth and existing customer consumption in the residential, small commercial and small and large industrial markets in 2010. These impacts may also result in the continued trend of temporary and permanent plant closures, particularly in the manufacturing sector. It is unclear to what extent the Federal and Ontario Provincial government stimulus packages, largely implemented in 2009, will mitigate any of these impacts in 2010.

Union Gas is also experiencing a reduction in distribution throughput as a result of energy conservation due to our Demand Side Management (DSM) initiatives, declining normalized use per customer and a general trend toward warmer weather. We expect these trends to continue. In addition, the Ontario Ministry of Energy has committed to aggressively promoting a culture of conservation across the province that is expected to further reduce energy consumption, with corresponding impacts on our volume-based revenue.

Union Gas continues to support focused efforts to promote conservation and energy efficiency through our DSM programs. In 2009, we spent $22 million (2008 - $20 million) promoting these programs. In view of the significant efforts to build a culture of conservation in Ontario, we expect customers to continue to focus on reducing gas consumption by increasing investments in energy efficiency and conservation.

Consumer concern over the reliability of electricity supply may create an opportunity to increase the penetration of natural gas appliances such as fireplaces, clothes dryers, ranges and grills in the residential market. Further, changes in the electricity market may also create a renewed interest in natural gas fired "stand by" generation, where that generating capacity is only required in unexpected circumstances.

In May 2009, the Ontario Legislature passed the *Ontario Green Energy and Green Economy Act*, an Act to help transform the Ontario energy sector towards a culture of conservation and to encourage the development of renewable energy throughout the province. We will continue to monitor the legislation and at this time we cannot anticipate the impact.

Storage and Transportation

The storage and transportation marketplace weathered the global economic downturn in 2009 and is expected to be stable going forward. Weak commodity prices as a result of a more robust North American gas supply balance and narrower seasonal price spreads in the marketplace are expected to result in lower unregulated storage values. North American natural gas supplies continue to increase as result of new supply attachment and development in the Rockies, as well as various new shale gas resource projects such as the Barnett, Fayetteville, Woodford and the Marcellus shale areas. The development of these new resources has increased overall North American gas supply reserves and is leading to significant new pipeline and storage infrastructure to connect these new supplies to the North American pipeline grid and the associated natural gas consuming market areas. We expect these new supply sources will be available to serve Ontario and Eastern Canadian markets. Furthermore, we expect that traditional natural gas flow patterns will change as these new supplies continue to develop which will provide Union Gas opportunities and challenges for new storage and pipeline infrastructure projects.

The location of our storage and transportation facilities, with interconnections between major U.S. markets in the Great Lakes region and the U.S. Northeast continues to support long-term growth opportunities for us. However, given the combination of the economic downturn experienced in 2009 and the flow changes related to new supply development, we expect that some growth opportunities may be delayed.

As a result of changes and restructuring occurring within the storage and transportation marketplace, we have seen and expect to see continued changes in our storage and transportation customer base. However, given the current economic conditions, we expect demand will be relatively flat in 2010. Improvement in overall North American demand is dependent on how quickly the economy recovers from the economic downturn experienced in 2009. It is our expectation that demand for natural gas in North America will continue to grow at a long-term rate of one percent per year along with continued growth in peak day demands.

Storage and Transportation Project Developments

In July 2009, Union Gas completed the construction of the Heritage storage reservoir with a working capacity of approximately 1.0 Bcf. In addition, Union Gas negotiated a long-term agreement with Sarnia Airport Storage

Pool Limited Partnership to acquire 100% of the 5.2 Bcf capacity of the new Sarnia Airport Storage Pool which was completed and brought into service in mid-2009.

During 2009, the drilling of additional storage wells related to the Tipperary North and South storage reservoirs began and is expected to be completed in early 2010. These additional wells were anticipated as part of the planned capital expenditure for this development and will be operational in 2010.

From July to August 2009, we solicited market interest for additional transmission service on the Dawn-Trafalgar transmission system with a targeted in-service date of the fourth quarter, 2011. New incremental market demands of approximately 0.3 Bcfd were received from customers. At the same time, Union Gas solicited interest from existing customers looking to turn back capacity to Union Gas in order to avoid building unnecessary pipeline facilities. We received capacity turn back requests of approximately 0.3 Bcfd, and consequently, we made the decision to service the new incremental demands from customers by utilizing the requested turn back capacity. As a result, no facility expansion is planned for 2011. We will continue to assess market requirements for new transmission capacity for 2012 and beyond.

Environmental, Health and Safety

During 2008, we obtained approval from the Ontario Ministry of the Environment (MOE) for a multi-site comprehensive certificate of approval (CC of A) for the permitting of our air and noise emission sources. The CC of A will treat Union Gas as a single integrated natural gas storage, transmission and distribution system incorporating all storage pools, metering and regulating stations, compressor stations and buildings into a single environmental permit. The terms and conditions of the CC of A include significant financial obligations for capital, operating and maintenance expenditures over a period of approximately 10 years, and the total estimated obligation has been included in the Contractual Obligations section of this document. Under the terms of the CC of A, we will be allowed to add and modify facilities without prior approval from the MOE, thereby reducing the risk of delays associated with obtaining environmental permits.

In 2009, air emission tests were completed on compression facilities at Dawn, Bright, and Parkway. An independent noise audit was completed for the Parkway B compressor and the MOE completed on-site air and noise inspections to ensure compliance at the Dawn facility. No compliance issues were noted. The MOE has approved Union Gas' proposal for a third party independent audit of our compliance to the CC of A.

Global Climate Change

Policymakers at provincial, federal and international levels continue to evaluate potential legislative and regulatory compliance mechanisms to achieve reductions in global greenhouse gas (GHG) emissions in an effort to address the challenge of climate change. It is likely that our assets and operations are or will become subject to direct and indirect effects of current and possible future global climate change regulatory actions in the jurisdictions in which those assets and operations are located.

The current international climate framework, the United Nations-sponsored Kyoto Protocol, prescribes specific targets to reduce GHG emissions for developed countries for the 2008-2012 period. United Nations-sponsored international negotiations were held in Copenhagen, Denmark in December 2009 with the intent of defining a future agreement for 2012 and beyond. While the talks resulted in a non-binding political agreement, to date, a binding successor accord to the Kyoto Protocol has not been realized.

While Canada is a signatory to the Kyoto Protocol, the Canadian federal government has confirmed it will not achieve the targets within the timeframes specified. Instead, the government in 2008 outlined a regulatory framework mandating GHG reductions from large final emitters. Regulatory design details from the Government of Canada remain forthcoming. We expect a number of our assets and operations will be affected by pending federal climate change regulations. However, the materiality of any potential compliance costs is unknown at this time as the final form of the regulation and compliance options has yet to be determined by policymakers.

A number of provinces are establishing or considering provincial or regional programs that would mandate reductions in GHG emissions including Ontario which is a member of the Western Climate Initiative which also includes the provinces of British Columbia, Manitoba and Quebec.

The Government of Ontario has also passed enabling legislation to provide it with the legal ability to establish a Cap and Trade system with the province of Quebec by 2012. A Cap and Trade system for reducing GHG emissions is a system whereby a maximum limit is placed upon the total GHG an area or jurisdiction can release. Within this system, industry sectors and then companies can be assigned maximum emissions limits. A company that emits GHGs that are less than their assigned maximum limit can trade their emissions credit at market value with a company that may have exceeded their assigned maximum limit. Conversely, a company that exceeds their assigned GHG emission limit will be required to purchase emission credits from other companies.

However, as the key details of future GHG restrictions and compliance mechanisms remain undefined, the likely future effects on our business are highly uncertain.

Due to the speculative outlook regarding the uncertainty of the Canadian federal and provincial policies, we cannot estimate the potential effect of GHG policies on our future consolidated results of operations, financial position or cash flows. We continue to monitor the development of GHG regulatory policies.

RISK FACTORS

Our earnings are affected by the risks inherent in the natural gas industry and energy marketplace. In general, our business and earnings level may be adversely affected by a number of risks as described below.

Market Risk

Sales to industrial customers are affected by general economic conditions and the absolute and relative price of alternative energy sources. In 2010, we expect that the North American economy will continue to remain sluggish despite relatively low energy prices.

Our industrial markets continue to experience a significant amount of demand reduction related to plant closures and energy efficiencies resulting in permanent demand losses.

The risk of bad debt exposures is expected to be moderate in 2010 relative to 2009 as the economy recovers from the economic recession. Our bad debt exposure consists of both the risk of collecting receivables for services provided as well as the risk related to gas imbalances that occur as a regular part of the services provided to the direct purchase market.

Sales to Union Gas' residential, small commercial and small industrial customers are affected by the number of new customer additions to the system, the price of natural gas, the warming trend in weather that is not fully reflected in rates, the preference for natural gas products and services, and the continued shift to higher efficiency products. New customer additions are expected to remain soft in 2010. In 2010, the ongoing trend towards more energy efficient products will continue to put pressure on our normalized average usage. Further, the current trend toward owning a water heater versus rental options exerts pressure on our market share, as the initial cost to purchase an electric water heater is less than the cost of a gas water heater.

Sales to ex-franchise storage and transportation customers can be affected by the expiry of existing long-term contracts. A significant quantity of transportation capacity is now subject to renewal on an annual basis. Customers with capacity expiring in 2012 are required to provide notice of their intent to re-contract for the expiring capacity in 2010. Our standard contract terms and conditions result in transportation customer contracts automatically renewing after the initial term for one year at a time subject to the customer providing two years prior notice of termination. For storage contracts, our standard contract terms do not allow for renewals but will typically have contract terms of one to five years. Union Gas manages the portfolio of expiring contracts each year and sells the expired capacity back into the market.

The ex-franchise storage and transportation market is impacted by commodity prices and changing gas supply flows related to the changes and developments of new unconventional shale gas supplies in North America. Weak commodity prices and seasonal pricing spreads combined with changes in traditional gas flow patterns will impact the value of unregulated storage services in 2010. Further, there is a risk of continued contraction in the storage and transportation customer base as a result of changes and restructuring within the storage and transportation market.

Commodity Price Risk

Fluctuations in natural gas prices affect our gas purchase costs for our own operating requirements as well as for the gas supply costs we incur for and collect from our system customers. Our gas procurement policy primarily includes contracts with pricing mechanisms that reflect monthly and daily variations in the price of gas. Commodity price volatility and absolute price levels also impact the amount of natural gas used by customers.

Credit Risk

Credit risk represents the loss that we could incur if a counterparty fails to perform under its contractual obligations. We analyze the customer's financial condition prior to entering into an agreement, obtain collateral when appropriate, establish credit limits and monitor the appropriateness of those limits on an ongoing basis.

In the normal course of operations, we provide gas loans to other parties from our holdings of gas in storage. The replacement cost of the gas on loan at December 31, 2009 was $47 million (2008 - $86 million). We manage our credit exposure related to gas loans by subjecting these parties to the same credit policies used for all customers.

As the economy recovers from the economic downturn in 2010, credit risk and related exposures will continue to exist across all markets in 2010.

Weather Risk

The revenue levels approved by the OEB are impacted by weather, as a primary component of Union Gas rates is volume based. The volume forecasts used to determine the rates approved by the OEB assume normal weather conditions. Normal weather, as mandated by the OEB, is based on a 55:45 weighting of the 30-year average forecast and 20-year trend forecast respectively, for 2008 and beyond. Since a large portion of the gas distributed to the residential and commercial markets is used for space heating and is charged using volume-based rates, differences from normal weather have a significant effect on the consumption of gas and on our financial results.

Regulatory Risk

Our natural gas assets and operations are subject to regulation by federal, provincial and local authorities including the OEB and by various federal and provincial authorities under environmental laws. Regulation affects almost every aspect of our business, including the ability to determine terms and rates for services provided by some of our businesses, acquisitions, construction, expansion and operation of facilities, issuance of equity or debt securities, and dividend payments.

In addition, regulators in Canada have taken actions to strengthen market forces in the gas pipeline industry, which have led to increased competition. In a number of key markets, natural gas pipeline and storage operators are facing competitive pressure from a number of new industry participants, such as alternative suppliers as well as traditional pipeline competitors. Increased competition driven by regulatory changes could have a material effect on our business, earnings, financial condition and cash flows.

Competition

As our distribution business is regulated by the OEB, it is generally not subject to third-party competition within our distribution franchise area. However, as a result of a 2006 decision by the OEB, physical bypass of our facilities even within our distribution franchise area may be permitted. In addition, other companies could enter our markets or regulations could change.

Union Gas competes with other forms of energy available to its customers and end-users, including electricity, coal, propane and fuel oils. Factors that influence the demand for natural gas include price changes, the availability of natural gas and other forms of energy, the level of business activity, conservation, legislation, governmental regulations, the ability to convert to alternative fuels, weather and other factors.

Permit Fees

Effective January 1, 2007, the Government of Ontario granted municipalities the right to charge a fee to recover the costs of issuing a permit to access pipelines located within a municipal roadway. During 2009, permit fees levied by municipalities against Union Gas did not have a significant impact on our consolidated financial statements. In response to budget shortfalls, should more municipalities start implementing a permit fee or if the amounts increase and these assessments become significant in the future, Union Gas will apply to the OEB to recover the annual cost of these fees in rates.

Financing Risk

Our business is financed to a large degree through debt. The maturity and repayment profile of debt used to finance investments often does not correlate to cash flows from assets. Accordingly, we rely on access to both short-term and long-term capital markets as a source of liquidity for capital requirements not satisfied by the cash flow from operations and to fund investments originally financed through debt. Our long-term debt is currently rated investment-grade by various rating agencies. If the rating agencies were to rate us below investment-grade, our borrowing costs would increase, perhaps significantly. In addition, we would likely be required to pay a higher interest rate in future financings, and our potential pool of investors and funding sources could decrease.

Union Gas is subject to long-term debt covenants that include a limitation on the payment of dividends, and requirements for specific interest coverage ratios prior to the issuance of additional long-term debt. Although we do not anticipate any impact to our current financing plans, reduced earnings may limit the payment of future dividends and the level of new long-term debt available to Union Gas. We maintain revolving credit facilities to provide back-up for commercial paper programs for borrowings and/or letters of credit. These facilities typically include financial covenants which limit the amount of debt that can be outstanding as a percentage of total capital. Failure to maintain these covenants could preclude us from issuing commercial paper or letters of credit or borrowing under the revolving credit facility and could require immediate pay down of any outstanding drawn amounts under other revolving credit agreements, which could adversely affect our cash flow.

If we are not able to access capital at competitive rates, our ability to finance operations and implement our strategy may be adversely affected. Restrictions on our ability to access financial markets may also affect our ability to execute our business plan as scheduled. An inability to access capital may limit our ability to pursue improvements or acquisitions that we may otherwise rely on for future growth. Any downgrade or other event negatively affecting the credit ratings could make our costs of borrowing higher or access to funding sources more limited.

Human Resources Risk

Union Gas' workforce consists of both unionized and non-unionized employees. Labour disruptions associated with the collective bargaining process can affect our ongoing operations. Projected changes in workforce demographics and a future shortage of skilled trades represent an emerging issue that must be addressed by Union Gas.

Performance Risk

We have extensive contractual relationships with natural gas producers, customers, marketers, commercial enterprises, industrial companies, and others. The risk of non-performance by a contracting party may be analyzed and reduced but it cannot be entirely eliminated. Ongoing consolidation of customers, financial institutions and partners may increase the severity of a default.

Litigation Risk

Union Gas, in the course of its operations, is subject to environmental and other claims, lawsuits and contingencies Although it is possible that liabilities may be incurred in instances for which no accruals have been made, we have no reason to believe that the ultimate outcome of such matters currently known to us could have a material effect on our consolidated financial statements.

Facility Risk

We carry on business through a large and complex array of natural gas transmission, storage and distribution assets. These facilities, like any other industrial operations, are subject to outages from time to time. Depending on circumstances, such outages may result in loss of revenues and/or increased maintenance costs.

Political Risk

The Ontario government is operating with large deficits and significant spending commitments, in particular with commitments regarding their poverty agenda. As such it is expected that they will continue to search for new sources of revenues including non-tax revenue streams such as fees and levies. The Ontario Government also has a history of direct intervention in energy matters in the publicly owned electricity sector. This has been increasing in recent years and the risk is that the Ontario Government will intervene on the privately owned natural gas sector, some of which might affect Union Gas.

Environmental, Health and Safety Risk

There are a variety of hazards and operating risks inherent in natural gas transmission, storage, and distribution activities, such as leaks, explosions and mechanical problems that could cause substantial financial losses. In addition, these risks could result in significant injury, loss of human life, significant damage to property, environmental pollution and impairment of operations, any of which could result in substantial losses. For pipeline and storage assets located near populated areas, including residential areas, commercial business centers, industrial sites and other public gathering areas, the level of damage resulting from these risks could be greater. We do not maintain insurance coverage against all of these risks and losses, and any insurance coverage we might maintain may not fully cover the damages caused by those risks and losses. Therefore, should any of these risks materialize, it could have a material adverse effect on our business, earnings, financial condition and cash flows.

Global Climate Change Risk

The current international climate framework, the United Nations-sponsored Kyoto Protocol, prescribes specific targets to reduce GHG emissions for developed countries for the 2008-2012 periods. United Nations-sponsored international negotiations were held in Copenhagen, Denmark in December 2009 with the intent of defining a future agreement for 2012 and beyond. While the talks resulted in a non-binding political agreement, to date, a binding successor accord to the Kyoto Protocol has not been realized.

While Canada is a signatory to the Kyoto Protocol, the Canadian federal government has confirmed it will not achieve the targets within the timeframes specified. Instead, the government in 2008 outlined a regulatory framework mandating GHG reductions from large final emitters. Regulatory design details from the Government of Canada remain forthcoming. We expect a number of our assets and operations will be affected by pending federal climate change regulations. However, the materiality of any potential compliance costs is unknown at this time as the final form of the regulation and compliance options has yet to be determined by policymakers.

A number of provinces are establishing or considering provincial or regional programs that would mandate reductions in GHG emissions including Ontario which is a member of the Western Climate Initiative which also includes the provinces of British Columbia, Manitoba and Quebec.

The Government of Ontario has also passed enabling legislation to provide it with the legal ability to establish a Cap and Trade system with the province of Quebec by 2012. A Cap and Trade system for reducing GHG emissions is a system whereby a maximum limit is placed upon the total GHG an area or jurisdiction can release. Within this system, industry sectors and then companies can be assigned maximum emissions limits. A company that emits GHGs that are less than their assigned maximum limit can trade their emissions credit at market value with a company that may have exceeded their assigned maximum limit. Conversely, a company that exceeds their assigned GHG emission limit will be required to purchase emission credits from other companies.

However, as the key details of future GHG restrictions and compliance mechanisms remain undefined, the likely future effects on our business are highly uncertain.

Due to the uncertainty of Canadian federal and provincial policies, we cannot estimate the potential effect of proposed GHG policies on our future consolidated results of operations, financial position or cash flows. However such legislation could increase our operating costs materially, require material capital expenditures or create additional permitting, which could delay proposed construction projects.

Storage Market Risk

We have market based rates for some of our storage capacity which are based largely on seasonal natural gas market pricing spreads. To the extent that seasonal natural gas market pricing spreads deviate from historical norms or there is significant growth in the amount of storage capacity available to natural gas markets relative to demand, our approach to managing our market-based storage capacity may not protect us from significant variations in storage revenues.

Protecting Against Potential Terrorist Activities

The potential for terrorism because of the high profile of the natural gas industry has subjected our operations to increased risks that could have a material adverse effect on our business. This risk is particularly great for companies, like ours, operating in any energy infrastructure industry that handles volatile gaseous and liquid hydrocarbons. The potential for terrorism has subjected our operations to increased risks that could have a material adverse effect on our business. In particular, we may experience increased capital and operating costs to implement increased security for our facilities and pipelines, such as additional physical facility and pipeline security and additional security personnel. Moreover, any physical damage to high profile facilities resulting from acts of terrorism may not be covered, or covered fully, by insurance. We may be required to expend material amounts of capital to repair any facilities, the expenditure of which could adversely affect our cash flows and business.

Changes in the insurance markets attributable to terrorist attacks may make certain types of insurance more difficult for us to obtain. Moreover, the insurance that may be available to us may be significantly more expensive than our existing insurance coverage. Instability in the financial markets as a result of terrorism or war could also affect our ability to raise capital.

Pension Risk

Our costs of providing non-contributory defined benefit pension plans are dependent upon a number of factors, such as the rates of return on plan assets, discount rates, the level of interest rates used to measure the required minimum funding levels of the plans, future government regulation and our required or voluntary contributions made to the plans. Without sustained growth in the pension plan investments over time to increase the value of our plan assets, and depending upon the other factors impacting our costs as listed above, we could be required to fund our plans with significant amounts of cash. Such cash funding obligations could have a material effect on our earnings and cash flows.

Land Rights

Certain aboriginal groups in Ontario have also claimed aboriginal and treaty rights in areas where Union Gas' Dawn storage and transmission assets are located and also in areas where the Dawn-Trafalgar pipeline route is located. The existence of these claims could give rise to future uncertainty regarding land tenure depending upon their negotiated outcome.

CERTIFICATION OF DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to: (a) provide reasonable assurance that material information required to be disclosed by us is accumulated and communicated to management to allow timely decisions regarding required disclosure; and (b) ensure that material information required to be disclosed by us is recorded, processed, summarized, and reported within the time periods specified in applicable securities legislation.

Our management, with the participation of the President and the Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2009, and, based upon this evaluation, the President and the Chief Financial Officer have concluded that these disclosure controls and procedures, as defined by the Companion Policy 52-109CP to National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings (NI 52-109)*, are effective for the purposes set out above.

Internal Control over Financial Reporting

Our management is responsible for designing, establishing and maintaining an adequate system of internal control over financial reporting. Our internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, in accordance with Canadian generally accepted accounting principles (GAAP). Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate.

Our management, with the participation of our President and the Chief Financial Officer, has conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2009 based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, management concluded that our internal control over financial reporting, as defined by the Companion Policy 52-109CP to NI 52-109, is effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP.

Changes in Internal Control over Financial Reporting

Under the supervision and with the participation of management, including the President and Chief Financial Officer, we have evaluated changes in internal control over financial reporting that occurred during the fiscal quarter and year ended December 31, 2009 and found no change that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

Our Board of Directors reviewed and approved the 2009 audited consolidated financial statements and this management's discussion and analysis prior to its release.

CRITICAL ACCOUNTING POLICIES & ESTIMATES

The application of accounting policies and estimates is an important process that continues to evolve as Union Gas' operations change and accounting guidance is issued. Union Gas has identified a number of critical accounting policies and estimates that require the use of significant estimates and judgments.

Management bases its estimates and judgments on historical experience and on other various assumptions that they believe are reasonable at the time of application. The estimates and judgments may change as time passes and more information becomes available. If estimates and judgments are different than the actual amounts recorded, adjustments are made in subsequent periods to take into consideration the new information. Union Gas discusses its critical accounting policies and estimates and other significant accounting policies with senior members of management and the Board of Directors.

Regulatory Accounting

Union Gas follows Canadian GAAP, which allows accounting treatments that may differ for rate-regulated operations from those otherwise expected in non rate-regulated businesses. As a result, we record assets and liabilities that result from the regulated ratemaking process that may not be recorded under GAAP for non rate-regulated entities. Regulatory assets generally represent incurred costs that have been deferred because they are probable of future recovery in customer rates. Regulatory liabilities generally represent obligations to make refunds to ratepayers. Management continually assesses whether the regulatory assets are probable of future recovery by considering factors such as applicable regulatory changes and recent rate orders to other rate-regulated entities. Management believes the existing regulatory assets are probable of recovery. This determination reflects the current political and regulatory climate and is subject to change in the future. If future recovery of costs ceases to be probable, asset write-offs could be required to be recognized in current period earnings.

Unbilled Revenue

Revenues from the transportation, storage, distribution and sales of natural gas are recognized when either the service is provided or the product is delivered. Revenues related to these services provided or products delivered but not yet billed are estimated each month. Gas sales and distribution revenue and cost of gas are recorded on the basis of regular meter readings and estimates of the unbilled customer usage. The unbilled estimate covers the period of the last meter reading date to the end of each month and is calculated using the number of days unbilled, heating degree-days and historical consumption per heating degree-day. Unbilled revenue recorded at December 31, 2009 was $100 million (2008 – $192 million). Differences between actual and estimated unbilled revenues are not material to net income. Included in unbilled revenue are natural gas costs passed through to customers without a mark-up. At December 31, 2009 $54 million (2008 – $145 million) was included in unbilled revenue for the cost of natural gas.

Employee Future Benefits

The Company provides employees with a choice between defined benefit and defined contribution pension plans. The Company's costs of providing defined benefit pensions are dependent upon a number of factors, including: rates of return on pension fund assets, discount rates and interest rates used to measure the required minimum funding requirements of the plans in accordance with pension legislation, future changes in government regulations and the Company's required or voluntary contributions to the plans. Without sustained growth in the pension fund investments over time to increase the value of the pension fund assets, and depending upon the other factors impacting the Company's costs, as listed above, the Company may be required to fund the plans with significant additional cash contributions. Such additional cash funding contributions could have a material impact on the Company's future earnings and cash flows.

Critical estimates and assumptions are required to account for employee future benefits, and changes to these estimates and assumptions could result in a material difference to our employee future benefit plan obligation.

The following is a summary of the sensitivity of key assumptions used to record the employee future benefit liability:

Sensitivity of key assumptions

($millions)	Registered Pension Plan and Supplemental Pension Arrangements		Post-Retirement Benefits Other than Pensions	
Assumed change in:	**1% Increase**	**1% Decrease**	**1% Increase**	**1% Decrease**
Discount rate				
Change in 2009 net periodic benefit cost	**(6)**	7	**–**	–
Change in benefit obligation	**(66)**	75	**(8)**	9
Health care cost trend rate				
Change in benefit obligation	**N/A**	N/A	**5**	(5)
Change in 2009 net periodic benefit cost	**(5)**	5	**N/A**	N/A

FUTURE ACCOUNTING CHANGES

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the Emerging Issues Committee issued the EIC-173, Credit risk and the fair value of financial assets and financial liabilities. This abstract requires that an entity's own credit risk (for financial liabilities) and the credit risk of the counterparty (for financial assets) should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. This abstract will be applicable to financial statements relating to fiscal years beginning January 1, 2010. The Company does not expect that the adoption of this abstract will have a material impact on its consolidated financial statements.

Transition to International Financial Reporting Standards (IFRS)

On February 13, 2008, the Accounting Standards Board (AcSB) of the Canadian Institute of Chartered Accountants confirmed that publicly accountable enterprises will be required to adopt IFRS in place of GAAP for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011.

Conversion plan

Our IFRS conversion project started in 2007 and we are now well positioned to begin capturing comparative figures throughout 2010 and fully converting to IFRS on January 1, 2011. A formal project governance structure continues to be in place. This structure includes a steering committee consisting of senior levels of management. Regular reporting is provided to certain senior executives and to our Board of Directors. An external advisor continues to assist us with our conversion to IFRS.

Our project consists of four phases: diagnostic; design and planning; solution development; and implementation. We have completed the diagnostic; design, and planning; and solution development phases. In these phases, we have documented the areas of key accounting differences, made policy decisions and commenced a staged implementation in the identified areas. We have established a communication plan, placed considerable focus on employee training, are converting our financial systems to accommodate the new IFRS requirements, have evaluated the impacts of IFRS transition on other business activities and have plans in place to address those impacts.

Key accounting differences

We have determined that the areas of key accounting differences with high potential impact are rate-regulated accounting, accounting for employee future benefit costs and accounting for property, plant and equipment, as well as the initial adoption of IFRS under the provisions of IFRS 1, First-time Adoption of IFRS. The adoption of IFRS 1 will include the restatement of periods beginning January 1, 2010, and the election of various policy options, as allowed. We do not currently have an estimate of these impacts.

Accounting for the Effects of Rate Regulation

Unlike GAAP, IFRS does not currently include specific provisions for accounting for the effects of rate regulation. However, the International Accounting Standards Board's (IASB) has issued an Exposure Draft for Rate-regulated Activities (ED) to address this concern. As such, as part of our conversion to IFRS, we are reviewing each of our regulatory assets and liabilities to determine whether they meet the definition and recognition criteria found in the IASB Framework for the Preparation and Presentation of Financial Statements, in the specific IFRS standards and in the ED. Should the ED be approved without significant changes, we are confident that most of our regulated assets and liabilities will continue to exist. However, without the ED many of these items may not meet the definition of an asset or liability upon implementation of IFRS. In that case, those assets and liabilities would be written-off at implementation and the future economic effects of these types of items would be recognized in earnings of the period in which they occurred. Further, the ED proposes that regulatory assets and liabilities be measured at their expected present value whereas under Canadian GAAP their valuation is undiscounted. The impact of this difference, on transition, could be significant.

Effective January 1, 2009, amendments have been made to certain sections of the CICA Handbook related to rate-regulated accounting.

CICA Section 3465, Income Taxes has been amended to require rate-regulated enterprises to recognize future income tax assets and liabilities. This amendment also requires that a regulatory asset or liability for the amount of future income taxes expected to be recovered from or refunded to ratepayers, and to present these amounts on a pre-tax basis in the financial statements. The impact of these changes resulted in an increase in investments and other assets and an increase in future income tax liabilities of approximately $273 million on January 1, 2009.

CICA Section 1100, Generally Accepted Accounting Principles has been amended to remove a temporary exemption pertaining to the application of the recognition and measurement of assets and liabilities arising from rate regulation. In the absence of specific guidance the CICA has permitted reliance on another source of GAAP, specifically the Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation* (FAS 71). Since FAS 71 does not specifically address depreciation methods, Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* (FAS 143) applies to entities that meet FAS 71. FAS 143 requires asset removal costs to be reported as a regulatory liability. Prior to 2009, asset removal costs were included in property, plant and equipment. The impact of these changes resulted in an increase in property plant and equipment and an increase in regulatory liabilities of approximately $402 million on January 1, 2009.

Employee Future Benefit Cost

We expect that there will be a charge to retained earnings upon adoption of IFRS as a result of the write-off of accumulated unamortized actuarial losses and transitional obligations recorded under GAAP on the date of transition. However, in accordance with the proposals in the ED and upon its approval, we will also record a regulatory asset equal to the expected present value of this charge, thereby lessening the impact to retained earnings.

Property, Plant and Equipment

Property, plant and equipment accounting changes could see the following impacts:

- Certain indirect overhead costs previously capitalized under GAAP will be required to be written off at implementation. For periods after the implementation of IFRS, those types of indirect overhead costs will need to be expensed in the period in which they are incurred.
- Adjustments to the opening net book value for items that would not have been capitalized if we had been applying IFRS since our inception.
- Under IFRS, we will record and depreciate property, plant and equipment based on the life of specific components of individual assets.

Impact on Financial Systems

Earlier in 2009, we identified IFRS differences that will have an impact on our financial systems and commenced building our design solutions. The conversion to IFRS will significantly impact our financial systems, primarily driven by the fact that IFRS does not currently include specific provisions for accounting for the effects of rate-regulation. Should the ED be approved as drafted, many but not all differences between IFRS and regulatory accounting will disappear. We will need to maintain three sets of records; one that is based on policies in accordance with IFRS, a second that is used for reporting to the regulators for rate-setting purposes, and a third that is based on US GAAP for the preparation of consolidated financial statements by our parent company. We are on track to complete our financial systems upgrade in the second quarter of 2010.

Disclosure controls and procedures and internal control over financial reporting

Accounting policy changes will need to be embedded into our financial data and reporting systems. These impacts have been addressed throughout 2009 during the solution development and implementation stages.

Financial Reporting Expertise

During the design and planning phase, we established a staff communication plan, and are currently executing our staff training programs. Our training program began during 2007 and will continue through 2011. Our training program is targeted at both finance and non-finance groups, including our board of directors, executives, treasury, internal audit, regulatory, business development and external relations personnel. We have successfully completed the first phase of an extensive staff training program designed to educate key employees on IFRS, the key differences to GAAP, and the impact that the transition will have on us. We will continue to provide training to staff throughout and beyond the transition process.

Business Activities

The regulators have begun an IFRS consultation process to determine the nature of any changes that should be considered in regulatory accounting requirements in response to the introduction of IFRS. Along with other industry representatives, we are participating in this process. As IFRS does not currently include specific provisions for accounting for the effects of rate regulation, there could be significant changes in the way we are required to capture and report data should the regulators not adopt IFRS in its entirety.

During 2009, we have actively participated in an OEB consultation process to determine the effect the adoption of IFRS will have on regulatory accounting, the OEB's filing requirements and the rate-making process for our distribution business. The OEB issued a report in July 2009 regarding the required regulatory accounting changes and while it generally adopts IFRS, there are a number of exceptions that we will need to track and account for separately when reporting to the regulator. We also continue to monitor changes planned by the IASB to ensure that any impact is appropriately reflected in our transition plan. Of particular interest to us is the status of the ED on rate regulated activities which may result in a new IFRS standard being issued.

We have also worked with our treasury department to understand the impact that IFRS will have on our ability to comply with our debt covenants. No significant impact is expected, although this expectation may be affected by the ultimate outcome of the ED and the extent to which IFRS is adopted by the regulators.

The consolidated financial statements and all information in this report have been prepared by and are the responsibility of management. The consolidated financial statements have been prepared in conformity with Canadian generally accepted accounting principles and include certain estimated amounts, which are based on informed judgements to ensure fair representation in all material respects. When alternative accounting methods exist, management has chosen those it considers most appropriate.

Management depends upon Union Gas' system of internal controls and formal policies and procedures to ensure the consistency, integrity and reliability of accounting and financial reporting, and to provide reasonable assurance that assets are safeguarded and that transactions are properly executed in accordance with management's authorization. Management is also supported and assisted by a program of internal audit services.

The Board of Directors is responsible for ensuring that management fulfils its responsibility for financial reporting and for final approval of the consolidated financial statements.

The Board of Directors meets regularly with management, the internal auditors and the shareholders' auditors to review the consolidated financial statements, the Auditors' Report and other auditing and accounting matters to ensure that each group is properly discharging its responsibilities.

The shareholders' auditors have full and free access to the Board of Directors, as does the Director of Internal Audit Services.

Deloitte & Touche LLP performed an independent audit of the 2009 and 2008 consolidated financial statements in this report. Their independent professional opinion on the fairness of these consolidated financial statements is included in the Auditors' Report.

March 17, 2010

Julie Dill President	J. Patrick Reddy Chief Financial Officer

Deloitte & Touche LLP
150 Ouellette Place
Suite 200
Windsor ON N8X 1L9
Canada

Tel: (519) 967-0388
Fax: (519) 967-0324
www.deloitte.ca

Auditors' report

To the Shareholders of
Union Gas Limited

We have audited the consolidated balance sheets of Union Gas Limited (the "Company") as at December 31, 2009 and 2008 and the consolidated statements of income and comprehensive income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
March 17, 2010

UNION GAS LIMITED
Consolidated Statements of Income and Comprehensive Income

For the Years Ended December 31 ($millions)	**2009**	2008
Gas sales and distribution revenue	**1,684**	1,852
Cost of gas (note 15)	**1,026**	1,177
Gas distribution margin	**658**	675
Storage and transportation revenue (note 15)	**299**	244
Other revenue	**36**	34
	993	953
Expenses		
Operating and maintenance (note 15)	**345**	336
Depreciation and amortization (note 5)	**195**	186
Property and capital taxes	**68**	65
	608	587
Income before other items	**385**	366
Other (income) and expenses, net	**2**	(3)
Income before interest and income taxes	**383**	369
Interest expense (notes 6 and 15)	**160**	148
Income before income taxes	**223**	221
Income taxes (note 14)	**48**	41
Net income and comprehensive income	**175**	180
Preference share dividends	**2**	5
Net income applicable to common shares	**173**	175

(See accompanying notes)

UNION GAS LIMITED
Consolidated Statements of Retained Earnings

For the Years Ended December 31 ($millions)	**2009**	2008
Retained earnings, beginning of year	**688**	628
Net income and comprehensive income	**175**	180
Dividends		
Preference shares	**(2)**	(5)
Common shares	**(165)**	(115)
Retained earnings, end of year	**696**	688

(*See accompanying notes)*

UNION GAS LIMITED
Consolidated Balance Sheets

As at December 31 ($millions)	**2009**	2008
Assets		
Current assets		
Cash and cash equivalents (note 15)	**34**	–
Accounts receivable (notes 2, 3, 12 and 15)	**401**	539
Inventories (note 4)	**224**	228
Future income taxes (note 14)	**57**	10
Total current assets	**716**	777
Property, plant and equipment, net (note 5)	**4,303**	3,827
Investments and other assets (notes 2 and 13)	**427**	252
Total Assets	**5,446**	4,856
Liabilities and Shareholders' Equity		
Current liabilities		
Short-term borrowings and bank indebtedness (note 15)	**–**	115
Commercial paper (note 6)	**39**	206
Accounts payable and accrued charges (notes 2, 3, 12 and 15)	**794**	567
Income taxes payable (note 14)	**79**	4
Long-term debt (note 6)	**222**	29
Total current liabilities	**1,134**	921
Long-term liabilities		
Long-term debt (note 6)	**1,979**	2,200
Mandatorily redeemable preference shares (note 7)	**5**	5
Future income taxes (note 14)	**327**	108
Asset retirement obligations (note 9)	**108**	75
Regulatory and other liabilities (notes 2 and 13)	**455**	117
Total long-term liabilities	**2,874**	2,505
Total Liabilities	**4,008**	3,426
Non-controlling interest	**10**	10
Shareholders' equity		
Share capital (note 8)	**732**	732
Retained earnings	**696**	688
Total Shareholders' Equity	**1,428**	1,420
Total Liabilities and Shareholders' Equity	**5,446**	4,856

(See accompanying notes)

Approved by the Board

Director

Director

UNION GAS LIMITED
Consolidated Statements of Cash Flows

For the Years Ended December 31 ($millions)	**2009**	2008
Operating Activities		
Net income	**175**	180
Items not affecting cash		
Depreciation and amortization	**195**	187
Asset disposal costs	–	(1)
Future income taxes	**(55)**	14
Non-cash changes in working capital		
Accounts receivable	**167**	(133)
Inventories	**26**	(65)
Account payables, accrued charges and other	**134**	(20)
	642	162
Investing Activities		
Additions to property, plant and equipment	**(247)**	(404)
Financing Activities		
Net increase (decrease) in short-term borrowings and bank indebtedness	**(115)**	2
Net decrease in commercial paper	**(167)**	(31)
Long-term debt issued	**–**	500
Long-term debt repayments	**(29)**	(109)
Dividends paid	**(50)**	(120)
	(361)	242
Change in cash and cash equivalents, during the year	**34**	–
Cash and cash equivalents, beginning of year	**–**	–
Cash and cash equivalents, end of year	**34**	–
Supplementary Disclosure of Cash Flow Information:		
Cash payments of interest	**164**	149
Cash payments of income taxes	**47**	28

(See accompanying notes)

UNION GAS LIMITED
Notes to Consolidated Financial Statements
December 31, 2009 and 2008

Union Gas Limited (Union Gas or the Company) owns and operates natural gas transmission, distribution and storage facilities in Ontario. The Company distributes natural gas to customers in northern, southwestern and eastern Ontario and provides natural gas storage and transportation services for other utilities and energy market participants. The property, plant and equipment of the Company consist primarily of pipeline, storage and compression facilities used in the transportation, storage and distribution of natural gas. In total, the Company has approximately 5,000 kilometres of high-pressure transmission pipeline and approximately 60,000 kilometres of distribution main and service pipelines. The Company's underground natural gas storage facilities have a working capacity of more than 156 billion cubic feet (Bcf).

1. Significant Accounting Policies

Accounting Principles

The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and certain transactions have been recorded using accounting principles for rate-regulated enterprises as discussed below under "Regulation." The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities. Actual amounts could differ from these estimates. Management's significant estimates include unbilled revenue, income tax expense, employee future benefit expense, estimated useful life of property, plant and equipment and asset retirement obligations.

Accounting Changes

Rate-regulated Operations

Effective January 1, 2009, amendments have been made to certain sections of the Canadian Institute of Chartered Accountants (CICA) Handbook related to rate-regulated accounting.

CICA Section 3465, Income Taxes has been amended to require rate-regulated enterprises to recognize future income tax assets and liabilities. This amendment also requires that a regulatory asset or liability for the amount of future income taxes expected to be recovered from or refunded to ratepayers, and to present these amounts on a pre-tax basis in the financial statements. The impact of these changes resulted in an increase in investments and other assets and an increase in future income tax liabilities of approximately $273 million on January 1, 2009.

CICA Section 1100, Generally Accepted Accounting Principles has been amended to remove a temporary exemption pertaining to the application of the recognition and measurement of assets and liabilities arising from rate regulation. In the absence of specific guidance the CICA has permitted reliance on another source of GAAP, specifically the Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation* (FAS 71). Since FAS 71 does not specifically address depreciation methods, Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* (FAS 143) applies to entities that meet FAS 71. FAS 143 requires asset removal costs to be reported as a regulatory liability. Prior to 2009, asset removal costs were included in property, plant and equipment. This reclassification resulted in an increase in property, plant and equipment and an increase in regulatory liabilities of approximately $402 million on January 1, 2009.

Goodwill and Intangible Assets

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets, replacing Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new section is applicable to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008, and was adopted by the Company on January 1, 2009. The new section establishes standards for the recognition, measurement, presentation and disclosure of intangible assets and goodwill subsequent to its initial recording by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The impact of these changes did not have a material impact on our consolidated financial statements.

Financial Instruments

Effective December 31, 2009, the Company adopted new accounting standards for Financial Instruments – Disclosure and Presentation (CICA Handbook Sections 3862 and 3863). The new sections replace Section 3861 *Financial Instruments – Disclosure and Presentation*. The new standard provides additional guidance on disclosure requirements for financial instruments, while presentation requirements remain essentially unchanged. Disclosure requirements pertaining to Section 3862 are contained in note 12. The adoption of Section 3862 and Section 3863 did not have an impact on the Company's consolidated financial statements.

Future Accounting Changes

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the Emerging Issues Committee issued the EIC-173, Credit risk and the fair value of financial assets and financial liabilities. This abstract requires that an entity's own credit risk (for financial liabilities) and the credit risk of the counterparty (for financial assets) should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. This abstract will be applicable to financial statements relating to fiscal years beginning January 1, 2010. The Company does not expect that the adoption of this abstract will have a material impact on its consolidated financial statements.

Principles of Consolidation

The consolidated financial statements of the Company include the accounts of Union Gas and its subsidiary, Huron Tipperary Limited Partnership I. The Company acquired 75% ownership in 2007.

Regulation

The Company is regulated by the Ontario Energy Board (OEB) pursuant to the provisions of the *Ontario Energy Board Act* (1998), which is part of a package of legislation known as *The Energy Competition Act* (1998). This legislation provides an opportunity for different forms of regulation and increased competition in the energy (electricity and natural gas) industry in Ontario. The Company is subject to regulation with respect to the rates that it may charge its customers, with the exception of the items noted below, system expansion or facility abandonment, adequacy of service, public safety aspects of pipeline system construction and certain accounting principles.

The OEB is mandated to approve rates that are just and reasonable. Utility earnings are regulated by the OEB under cost of service regulation, on the basis of a return on rate base for a future period. Under cost of service regulation, a rate application process leads to the implementation of new rates intended to provide a utility with the opportunity to earn an allowed rate of return. The actual rate of return achieved by the Company may vary from the rate allowed by the OEB as a result of unexpected changes in weather, average use per customer, inflation, the price of competing fuels, interest rates, general economic conditions and its ability to achieve forecast revenues and manage costs.

Rates effective January 1, 2007 were approved by the OEB on the basis of the traditional cost of service framework. Effective January 1, 2008, the Company began a five year incentive regulation term. The incentive regulation framework establishes new rates at the beginning of each year through the use of a pricing formula rather than through the examination of revenue and cost forecasts. The Company is expecting to set rates for 2013 on a cost of service basis.

In November 2006, the Company received a decision from the OEB on the regulation of rates for gas storage services in Ontario. The OEB found that the storage market is competitive. As a result the OEB will not regulate the prices of storage services to ex-franchise customers or the prices of new storage services to in-franchise customers. Existing storage services to in-franchise customers will continue to be provided at cost-based rates. All other services continue to be regulated by the OEB.

The Company follows Canadian GAAP, which may differ for regulated operations from those otherwise expected in non rate-regulated businesses. As a result, the Company records assets and liabilities that result from the regulated ratemaking process that may not be recorded under GAAP for non rate-regulated entities. Regulatory assets generally represent incurred costs that have been deferred because they are probable of future recovery in customer rates. Regulatory liabilities generally represent obligations to make refunds to customers for previous collections for costs that are not likely to be incurred, or for certain net revenues beyond a pre-established threshold. Management continually assesses whether the regulatory assets are probable of future recovery by considering factors such as applicable regulatory changes and recent rate orders to other regulated entities. Management believes the existing regulatory assets are probable of recovery. This determination reflects the current political and regulatory climate at the provincial and national levels, and is subject to change in the future. If future recovery of costs ceases to be probable, the asset write-offs could be recognized in current period earnings.

Revenue Recognition

Revenues from the transportation, storage, distribution and sales of natural gas are recognized when either the service is provided or the product is delivered. Revenues related to these services provided or products delivered but not yet billed are estimated each month.

Gas Sales and Cost of Gas

Gas sales revenue is recorded on the basis of regular meter readings and estimates of customer volume usage since the last meter reading date to the end of the reporting period applied using OEB approved rates. Cost of gas is recorded using amounts approved by the OEB in the determination of customer sales rates. Differences between the OEB approved reference amounts and those costs actually incurred are deferred in either accounts receivable or accounts payable and accrued charges for future disposition subject to approval by the OEB.

In determining the quantities of gas delivered and received, differences arise from the measurement process. The Company includes in the cost of gas an estimated amount of these differences based upon the methodology used by the OEB in the determination of rates for storage, transmission and distribution of gas. Annual fluctuations from the estimated level are recognized in earnings during the year.

As part of the Company's OEB-approved incentive regulation framework, an earnings sharing mechanism exists whereby earnings above an allowable return on equity are shared with ratepayers. A provision of $4 million was recognized as a reduction of gas sales and distribution revenue and as an obligation in accounts payable and accrued charges for 2009 (2008 – $17 million). Also, the Company recorded an $11 million charge during the year as a result of a settlement agreement reached with Union Gas' stakeholders with regard to our 2008 utility earnings.

Natural Gas Risk Management Contracts

The gas supply portfolio of Union Gas primarily includes contracts with pricing mechanisms that reflect monthly and daily variations in the price of gas. These contracts are indexed to either the New York Mercantile Exchange natural gas futures contracts, the Canadian Gas Price Reporter that publishes Alberta index prices or the Platt's Inside FERC Dawn Monthly Index.

The Company previously engaged in financial hedging activity for the purpose of managing the risk associated with market fluctuations in the price of natural gas. However, a July 2008 OEB decision found that there was no material net benefit to the Company's customers of financially hedging Union Gas' natural gas commodity costs, and disallowed the recovery of the costs associated with the risk management program that were previously embedded in distribution rates. In September 2008, the Company exited all remaining financial positions and ceased all financial hedging activity.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and short-term investments, with an original maturity of three months or less, and short term borrowings.

Income Taxes

The asset and liability method of tax allocation is used in accounting for income taxes for non-regulated operations. Under this method, future income tax assets and liabilities are recognized for differences between the financial reporting and tax bases of assets and liabilities at enacted, or the substantively enacted, tax rates in effect for the years in which the differences are expected to reverse.

Effective January 1, 2009, we changed our accounting for income taxes for our rate regulated operations as a result of an amendment to the accounting standard related to income taxes. The revised standard requires rate regulated enterprises to recognize future income tax assets and liabilities, and an associated regulatory asset or liability, if applicable, for the amount of future income taxes expected to be recovered from or refunded to ratepayers, and to present these amounts on a gross basis in the financial statements. See Accounting Changes for further discussion.

Inventories

Gas in storage for resale to customers is carried at costs approved by the OEB in the determination of customer sales rates. The difference between the approved cost and the actual cost of the gas purchased is deferred in either accounts receivable or accounts payable and accrued charges for future disposition subject to approval by the OEB. Inventories of materials and supplies are valued at the lower of cost or net realizable value.

Property, Plant and Equipment and Depreciation

Property, plant and equipment are carried at cost which includes all direct costs, overhead attributable to construction and interest capitalized during construction. The cost of property, plant and equipment is reduced by contributions and grants in aid of construction received from customers and governmental bodies in support of specific transmission and distribution facilities.

Depreciation is provided on the straight-line method at various rates based on the average service life of each class of property. The range of average service life of each class of property is as follows:

Distribution	27-60 years
Transmission	30-50 years
Storage	26-47 years
General	4-38 years

Depreciation rates are determined by periodic review. The depreciation rates for regulated property, plant and equipment are approved by the OEB.

When we retire regulated property, plant and equipment, we charge the original cost plus the cost of retirement, less salvage value, to accumulated depreciation and amortization. When we sell entire regulated operating units, or retire non-regulated properties, the cost is removed from the property account and the related accumulated depreciation and amortization accounts are reduced. Any gain or loss is recorded in earnings, unless otherwise required by the OEB.

Asset Retirement Obligations

The Company recognizes the fair value of an asset retirement obligation (ARO), where a legal obligation exists, as a liability in the period in which it is incurred provided a reasonable estimate of fair value can be determined. The associated asset retirement cost is added to the carrying amount of the related asset. The liability is accreted over the estimated life of the related asset.

Stock-Based Compensation

Our employees participate in a stock-based compensation plan sponsored by Spectra Energy Corp (Spectra Energy). For employee awards, equity classified stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period, which generally begins on the date the award is granted through the earlier of the date the award vests or the date the employee becomes retirement eligible. Awards, including stock options, granted to employees that are already retirement eligible are deemed to have vested immediately upon issuance, and therefore, compensation cost for those awards is recognized on the date such awards are granted.

In addition, certain of our employees that previously participated in our 1989 Long Term Incentive Share Plan have the ability to receive a portion of their converted stock option awards as a stock appreciation right (SAR) paid in cash. We account for these by measuring the amount by which the quoted market price of the underlying stock exceeds the SAR base stock price at the balance sheet date.

Employee Benefit Plans

The Company uses the projected benefit method prorated on services to account for defined benefit pension and post-retirement benefits other than pensions earned by employees.

The Company accrues obligations under employee benefit plans and the related costs, net of plan assets. The plan assets are valued at fair value. The calculation of the expected return on assets is based on the market-related value of assets with the market related adjustment determined over a three-year period.

Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service life of employees active at the date of amendment.

The amount by which the net unamortized cumulative actuarial gain or loss exceeds ten percent of the greater of the accrued benefit obligation or the market-related value of plan assets at the beginning of the year is amortized over the expected average remaining service period of the active employees.

The average remaining service period of active employees covered by the pension plans and the post-retirement benefits other than pension plans is 10 and 18 years, respectively.

For defined contribution plans maintained by the Company, contributions payable by the Company are expensed as pension costs in the period incurred.

2. Financial Statement Effects of Rate Regulation

The Company records assets and liabilities that result from the regulated ratemaking process that would not be recorded under GAAP for non-regulated entities. See note 1 for further discussion.

($millions)	Financial Statement Classification	Recovery/ Settlement Period	2009	2008
Assets				
Other deferrals – current	a	A	22	24
Other deferrals – long-term	f	B/C	166	–
Gas in storage inventory	b	A	37	40
Future income taxes (current)	d	A	68	20
Total assets			293	84
Liabilities				
Asset removal costs	g	C	398	402
Other deferrals – current	c	A	37	27
Other deferrals – long-term	e	B	–	65
Gas cost deferrals	c	A	186	19
Storage and transportation deferrals	c	A	20	33
Total liabilities			641	546

In the absence of rate regulation, the Company's future income tax liability (long-term) would have been $61 million higher in 2009 (2008 - $332 million higher).

Financial Statement Classification

(a) Accounts receivable
(b) Inventories
(c) Accounts payable and accrued charges
(d) Future income tax asset/liability
(e) Regulatory and other liabilities
(f) Investments and other assets
(g) 2009 - Regulatory and other liabilities; 2008 - Property, plant and equipment

Recovery/Settlement Period

(A) Remaining recovery / settlement is less than 1 year
(B) Remaining recovery / settlement is from 2 to 10 years
(C) Remaining recovery / settlement is over the remaining life of the associated assets

Other deferrals – current

As prescribed by regulatory order, the Company has various amounts included in customer rates that are intended to recover specifically-identified costs. To the extent that the actual costs differ from forecast costs or revenues, the variance is deferred for future recovery from or refund to ratepayers. In the absence of rate regulation, after-tax earnings for 2009 could have been $8 million higher (2008 - $1 million lower) because GAAP for non-regulated entities would require that all customer rate revenue and costs be recognized in income when earned.

Other deferrals – long-term

The Company has recorded a regulatory asset for the amount of future income taxes expected to be recovered from ratepayers. In the absence of rate regulation, after-tax earnings for 2009 could have been $31 million higher (2008 - $18 million lower) because GAAP for non-regulated entities would require that these amounts be recognized in earnings in the current period.

Deferred mark-to-market gains/losses

The Company previously engaged in financial hedging activity for the purpose of managing the risk associated with market fluctuations in the price of natural gas. However, a July 2008 OEB decision found that there is no material net benefit to the Company's customers of financially hedging Union Gas' natural gas commodity costs, and disallowed the recovery of the costs associated with the risk management program that were previously embedded in distribution rates. In September 2008, the Company exited all remaining financial positions and ceased all financial hedging activity. Previous to the discontinuance of financial hedging, contracts that remained open at the balance sheet date were marked to market with an offsetting amount, representing an unrealized gain/loss, being deferred. In the absence of rate regulation, after-tax earnings for 2008 could have been $5 million higher because GAAP for non-regulated entities would require that these unrealized gains/losses be recognized in the current period.

Gas in storage

Gas in storage is carried at the weighted average cost of gas as approved by the OEB. In the absence of rate regulation, after-tax earnings for 2009 could have been $3 million higher (2008 - $20 million lower), because GAAP for non-regulated entities would require that gas in storage be recorded at the lower of cost and net realizable value.

Future income taxes

CICA Section 3465, Income Taxes has been amended to require rate-regulated enterprises to recognize future income tax assets and liabilities. As a result, rate regulation does not impact that way in which the Company accounts for future income taxes and, therefore, has no impact on the Company's 2009 after-tax earnings. For periods ending prior to 2009, the Company accounted for income taxes using the flow through tax accounting methodology. Accordingly, the Company did not provide for income taxes deferred to future years as a result of differences in the treatment for income tax and accounting purposes of various items of income and expenditure. The after-tax earnings for 2008 could have been $21 million lower.

Asset removal costs

The Company has recorded a regulatory liability, included in deferred credits and other liabilities, as a result of estimated removal costs for property that does not have an associated legal retirement obligation. In the absence of rate regulation, these costs may not have been recorded and after-tax earnings for 2009 could have been $3 million lower (2008 - $16 million higher).

Gas cost deferrals

The Company and the OEB have a mechanism in place to change gas commodity rates on a quarterly basis, to ensure that customers' rates reflect future expected costs based on published forward market prices. The difference between the approved and the actual cost of gas incurred is deferred for future recovery from or repayment to customers. These deferred amounts are subject to review and approval by the OEB on an annual basis in the normal course. The regulatory asset or liability represents the difference between actual gas commodity costs incurred and the amount included in approved rates. In the absence of rate regulation, after-tax earnings for the 2009 could have been $115 million higher (2008 - $54 million lower), because GAAP for non-regulated entities would require that actual commodity costs be recognized as an expense when incurred.

Storage and transportation deferrals

The Company earns revenue for providing storage and transportation services to customers. The forecast of this revenue is one component used to establish Union Gas' rates for services. Storage and transportation deferral accounts accumulate any difference between the actual revenue earned in providing these storage and transportation services and the forecast revenue approved by the OEB for rate-making purposes. In the absence of rate regulation, GAAP for non-regulated entities would require that actual storage and transportation revenue be recognized in income when earned. After-tax earnings for 2009 could have been $9 million lower (2008 - $17 million higher), if these transactions were accounted for under GAAP for non-regulated entities.

Property, plant and equipment

In the absence of rate regulation, property, plant and equipment may not include overhead costs since these costs may have been charged to earnings in the period in which they occurred. As such, annual operating and maintenance costs could have been higher by the amounts capitalized and depreciation could be lower due to the impact of lower capitalized costs. These amounts are not readily determinable.

3. Gas Imbalances

The Company, in the normal course of its operations, experiences imbalances in natural gas volumes between interconnecting pipelines and provides gas balancing services to customers. Natural gas volumes owed to or from the Company are valued at natural gas market prices as of the balance sheet dates. As the settlement of imbalances is done with gas volumes, changes in the balances do not have an impact on the Company’s cash flow from operating activities.

At December 31, 2009 accounts receivable and accounts payable include approximately $102 million (2008 – $69 million) related to gas imbalances and gas balancing services.

4. Inventories

($millions)	**2009**	2008
Gas in storage	**208**	199
Materials and supplies	**16**	29
	224	228

Gas in storage includes gas for delivery to customers and for use in the Company’s operations. Inventories of materials and supplies are used in the operation and maintenance of the Company’s system.

5. Property, Plant and Equipment, net

($millions)	**2009**	2008
Cost		
Distribution	**3,483**	3,361
Transmission	**1,596**	1,562
Storage	**845**	818
General	**263**	277
	6,187	6,018
Accumulated depreciation		
Distribution	**1,028**	1,294
Transmission	**460**	506
Storage	**267**	273
General	**129**	118
	1,884	2,191
Net book value	**4,303**	3,827

Depreciation rates used during the year ended December 31, 2009 resulted in a composite rate of 3.32% (2008 – 3.34%).

Included in property, plant and equipment are the following:

($millions)	**2009**	2008
Assets not subject to depreciation[14]	**128**	219
Asset retirement cost	**32**	20
Interest charge capitalized during the year	**4**	7
Equipment under capital lease (net of accumulated amortization of nil and $3 for 2009 and 2008, respectively)	**–**	2

[14] Assets not subject to depreciation include land, base pressure gas in storage reservoirs and assets under construction.

6. Debt and Credit Facilities

Long-term Debt

($millions)		**2009**	2008
Sinking fund debentures			
10.75%	Senior debentures, redeemed July 2009	–	24
11.55%	1988 Series II debentures, due October 15, 2010	**37**	41
Medium-term note debentures			
7.20%	Series 2, due June 1, 2010	**185**	185
6.65%	Series 3, due May 4, 2011	**250**	250
4.64%	Series 5, due June 30, 2016	**200**	200
5.35%	Series 6, due April 27, 2018	**200**	200
4.85%	Series 7, due April 25, 2022	**125**	125
5.46%	Series 6, due September 11, 2036	**165**	165
6.05%	Series 7, due September 2, 2038	**300**	300
Other debentures			
7.90%	1994 Series debentures, due February 24, 2014	**150**	150
11.50%	1990 Series debentures, due August 28, 2015	**150**	150
9.70%	1992 Series II debentures, due November 6, 2017	**125**	125
8.75%	1993 Series debentures, due August 3, 2018	**125**	125
8.65%	Senior debentures, due October 19, 2018	**75**	75
8.65%	1995 Series debentures, due November 10, 2025	**125**	125
		2,212	2,240
Less: deferred financing charges		**11**	12
		2,201	2,228
Obligation under capital lease		–	1
		2,201	2,229
Less: current portion		**222**	29
		1,979	2,200

The Company's long-term debt is unsecured. The weighted average cost of long-term debt for the year ended December 31, 2009 was 7.1% (2008 – 7.1%). Principal repayment requirements on long-term debt are as follows:

($millions)	Total	2010	2011	2012	2013	2014	Thereafter
Long-term debt	2,212	222	250	–	–	150	1,590

Under the terms of the trust indentures relating to certain debentures, the Company has agreed to several covenants including a limitation on the payment of dividends. As of December 31, 2009 and 2008, the Company is in compliance with all such covenants.

Total interest paid on long-term debt in 2009 was $160 million (2008 - $143 million).

Total interest paid on the obligation under capital lease was less than $1 million in 2009 and 2008.

Available Credit Facilities and Restrictive Debt Covenants

			Outstanding at December 31, 2009		
	Expiration Date	Credit Facilities Capacity	Commercial Paper	Letters of Credit	Total
Multi-year syndicated[15]	2012	500	39	–	39
364-day bilateral[16]	2010	15	–	4	4
Total		515	39	4	43

The issuance of commercial paper, letters of credit and other borrowings reduces the amount available under the credit facilities.

The Company's credit agreements contain various financial and other covenants, including the maintenance of certain financial ratios. Failure to meet those covenants beyond applicable grace periods could result in accelerated due dates and/or termination of the agreements. As of December 31, 2009, the Company was in compliance with those covenants. In addition, the credit agreements allow for the acceleration of payments or termination of the agreements due to non-payment, or in some cases, due to the acceleration of other significant indebtedness of the borrower or some of its subsidiaries. None of the debt or credit agreements contain material adverse change clauses.

A majority of our short-term cash requirements are funded through the issuance of commercial paper. The weighted average rate on outstanding commercial paper was 0.4% as of December 31, 2009 and 2.2% as of December 31, 2008.

Total interest paid on short-term debt in 2009 was $4 million (2008 - $5 million).

7. Mandatorily Redeemable Preference Shares

		Outstanding			
Authorized		**2009**	2008	**2009**	2008
(shares)		*(shares)*		*($millions)*	
Class A – 112,072	Series A, 5.5%	**47,672**	47,672	**3**	3
	Series C, 5.0%	**49,500**	49,500	**2**	2
				5	5

The Class A Preference Shares, Series A and C are cumulative and redeemable at $50.50 per share. The Company is obligated to offer to purchase $170,000 of Series A and $140,000 of Series C shares annually at the lowest price obtainable, but not exceeding $50 per share.

[15] Credit facility contains a covenant requiring the debt-to-total capitalization ratio to not exceed 75% and a provision which requires Union Gas to repay all borrowings under the facility for a period of two days during the second quarter of each year.
[16] Credit facility contains a covenant requiring the debt-to-total capitalization ratio to not exceed 75%.

8. Share Capital

		Outstanding			
	Authorized	**2009**	2008	**2009**	2008
	(shares)	*(shares)*		*($millions)*	
Class A, Series B, 6%	90,000	**90,000**	90,000	**5**	5
Class B, Series 10, 4.88%	Unlimited	**4,000,000**	–	**100**	–
Class B, Series 11, 4.79%	Unlimited	**–**	4,000,000	**–**	100
				105	105
Common Shares	Unlimited	**57,822,650**	57,822,650	**627**	627
				732	732

The Class A, Series B Preference Shares are cumulative and redeemable at $55 per share at the option of the Company.

On January 1, 2009, all of the holders of the Cumulative Redeemable Convertible Class B Preference Shares, Series 11 (Series 11 Shares) exercised their option to convert their shares back into 4.88% Cumulative Redeemable Convertible Class B Preference Shares, Series 10 (Series 10 Shares). Union Gas may redeem at any time all, but not less than all, of the outstanding Series 10 Shares. On January 1, 2014, holders of Series 10 Shares have the right at their option, to convert all or any of the Series 10 Shares into Series 11 Shares. The dividend rate on the Series 10 Shares is floating at an annual rate equal to 80% of the prime rate until December 31, 2013.

In February 2009, all of the common shares of Union Gas were transferred to Great Lakes Basin Energy L.P., a wholly-owned limited partnership of Westcoast Energy Inc. (Westcoast).

9. Asset Retirement Obligation

The Company has a legal obligation to disconnect, purge and cap abandoned pipeline. The Company also has buildings that contain asbestos and therefore will have a legal obligation requiring the special handling and disposition of the asbestos if it is disturbed.

The Company has non-asbestos AROs which include storage wells, easements and some railway license agreements relating to pipeline assets located on land which the Company does not own. The Company has not recognized a liability in regard to the non-asbestos ARO because the fair value of the ARO cannot be reasonably estimated. The Company's pipeline system is considered a critical component of its business and is expected to be maintained and remain in place indefinitely. Natural gas supplies are also considered sufficient for the Company to operate in the long-term. The Company has determined that sufficient information to estimate the fair value of an ARO is not available because the assets are considered permanent with indeterminate useful lives and that sufficient information is not available to estimate a range of potential settlement dates in order to employ a present value technique to estimate fair value.

At December 31, 2009, the estimated undiscounted cash flows required to settle our AROs was $573 million (2008 – $468 million), calculated using an inflation rate of 2.0% per annum (2008 – 2.0%). The estimated fair value of this liability was $108 million (2008 – $75 million). The estimated cash flows of new obligations incurred during the year have been discounted at a rate of 4.22% per annum (2008 – 5.5%). At December 31, 2009, the timing of payment for settlement of the obligations ranges from 1 to 147 years.

Reconciliation of Asset Retirement Obligations:

($millions)	**2009**	2008
Balance, beginning of year	**75**	71
Liabilities incurred	**32**	–
Liabilities settled	**(3)**	–
Accretion	**4**	4
Balance, end of year	**108**	75

10. Stock-Based Compensation

Under the Long Term Incentive Share Option Plan 1989 ("1989 Plan"), the Company's parent company, Westcoast has granted certain stock options to its employees, including employees of Union Gas. Stock options are granted at an exercise price that equals the market price as defined in the 1989 Plan of Westcoast's shares on the date of grant. The 1989 Plan also provides for share appreciation rights under which the holder of a stock option may, in lieu of exercising the option, exercise the share appreciation right.

In December 2006, we adopted the Spectra Energy 2007 Long-Term Incentive Plan (the 2007 LTIP). The 2007 LTIP provides for the granting of stock options, restricted stock awards and units, unrestricted stock awards and units, and other equity-based awards, to employees and other key individuals who perform services for us. Options granted under the 2007 LTIP are issued with exercise prices equal to the fair market value of our common stock on the grant date, have ten year terms and vest immediately or over terms not to exceed five years. Compensation expense related to stock options is recognized over the requisite service period. The requisite service period for stock options is the same as the vesting period, with the exception of retirement eligible employees, who have shorter requisite service periods ending when the employees become retirement eligible.

Restricted, performance and phantom stock awards granted under the 2007 LTIP typically become 100% vested on the three-year anniversary of the grant date. The fair value of the awards granted is measured based on the fair value of the shares on the date of grant. Related compensation expense is recognized over the requisite service period which is the same as the vesting period.

At the time of our spin-off from Duke Energy, Duke Energy converted stock options, restricted stock awards, performance awards and phantom stock awards (collectively, Stock-Based Awards) of Duke Energy common stock held by our employees and Duke Energy employees. One replacement Duke Energy Stock-Based Award and one-half Spectra Energy Stock-Based Award were distributed to each holder of Duke Energy Stock-Based Awards for each award held at the time of the spin-off. In the case of stock options, in accordance with the separation agreements, the option price conversion was based on the pre-distribution Duke Energy closing price of $19.14 relative to the Spectra Energy when-issued closing price of $28.62 on January 3, 2007. The revised awards therefore maintained both the pre-conversion aggregate intrinsic value of each award and the ratio of the exercise price per share to the fair market value per share. Substantially all converted Stock-Based Awards are subject to the terms and conditions applicable to the original Duke Energy stock options, restricted stock awards, performance awards and phantom stock awards. The Spectra Energy Stock-Based Awards resulting from the conversion are considered to have been issued under the 2007 LTIP.

The conversion of Duke Energy stock awards to Spectra Energy stock awards constituted a modification of those stock awards. However, since the modification was made to stock awards issued to employees for instruments that were originally issued as compensation and then modified, and that modification was made to the terms of the instrument solely to reflect an equity restructuring that occurred when the holders were no longer employees, no change in the recognition or the measurement (due to a change in classification) of those instruments occurred as (a) there was no increase in fair value of the awards (the holders were made whole) and (b) all holders of the same class of equity instruments (for example, stock options) were treated in the same manner.

Spectra Energy allocates all associated expense relating to stock awards held by our employees to us.

Spectra Energy allocated pre-tax stock-based compensation expense included in continuing operations to us for 2009 and 2008 as follows, the components of which are further described below:

($ millions)	2009	2008
Stock Options	–	–
Stock Appreciation Rights[17]	–	–
Phantom Stock	1	1
Performance Awards	1	1
Total	2	2

Stock Options

A summary of the status of stock options held by employees of the Company as at December 31, 2009 and 2008, and changes during the years ended on those dates is presented below:

	2009		**2008**	
	Shares	Weighted-Average Exercise Price US$	Shares	Weighted-Average Exercise Price US$
Outstanding at beginning of year	277,149	$25	331,331	$25
Transfers in/(out)	27,090	23	(25,600)	25
Granted	-		-	
Exercised	(15,840)	19	(5,858)	17
Forfeited	(36,424)	23	(22,725)	26
Outstanding at end of year	251,975	$25	277,149	$25
Options exercisable at year-end	199,516	$25	173,097	$24

	Options Outstanding			**Options Exercisable**	
Exercise Prices US$	Number Outstanding At 12/31/09	Weighted-Average Remaining Contractual Life(in years)	Weighted-Average Exercise Price US$	Number Exercisable At 12/31/09	Weighted-Average Exercise Price US$
$11 – 15	26,200	3.2	$12	26,200	$12
$16 – 20	5,509	0.3	18	5,509	18
$21 – 25	169,153	7.0	26	116,694	25
$26 – 30	19,213	2.1	29	19,213	29
$31 – 35	22,200	2.1	33	22,200	33
> $35	9,700	1.0	37	9,700	37
Total	251,975	5.2	$25	199,516	$25

At December 31, 2009 251,975 Spectra Energy common shares were under options at prices ranging from US$11.86 to US$36.86 per share and 169,702 Duke Energy common shares were under option at prices ranging from US$7.85 to US$24.39, of which 35,925 Spectra shares and 62,002 Duke shares are eligible for share appreciation rights that allow the holder to receive 50% of the appreciated value in cash and the balance in common shares of Duke Energy.

Options granted under the 2007 LTIP are issued with exercise prices equal to the fair market value of Spectra Energy common stock on the grant date, have 10-year terms, and vest immediately or over terms not to exceed five years. Compensation expense related to stock options is recognized over the requisite service period. The

[17] Stock appreciation rights settled in cash must be marked to market with the increases/decreases resulting in a change to the measured compensation cost until exercise or expiration.

requisite service period for stock options is the same as the vesting period, with the exception of retirement eligible employees, who have shorter requisite service periods ending when the employees become retirement eligible. No options were granted in 2008 or 2009.

The estimated fair value of these stock options was determined using the Black Scholes option pricing model using the following assumptions.

($ millions)	2009	2008
Risk free interest rate	1.4%	4.4%
Expected life (years)	7	7
Expected volatility	41.0%	29.5%
Expected dividends	5.3%	3.4%

Performance Awards

Stock-based performance awards generally vest over three years. Vesting for certain converted stock-based performance awards can occur in three years, at the earliest, if performance metrics are met. The unvested and outstanding performance awards outstanding as of our spin-off date contain market conditions based on the total shareholder return (TSR) of Duke Energy stock relative to a pre-defined peer group (relative TSR). These awards are valued using a path-dependent model that incorporates expected relative TSR into the fair value determination of Duke Energy's performance-based share awards. The model uses three year historical volatilities and correlations for all companies in the pre-defined peer group, including Duke Energy, to simulate Duke Energy's relative TSR as of the end of the performance period. For each simulation, Duke Energy's relative TSR associated with the simulated stock price at the end of the performance period plus expected dividends within the period results in a value per share for the award portfolio. The average of these simulations is the expected portfolio value per share. Actual life-to-date results of Duke Energy's relative TSR for each grant is incorporated within the model. Other awards not containing market conditions are measured at grant date price. Coincident with the spin-off, each outstanding Duke Energy Performance award was converted into a Spectra Energy Performance Share and a Duke Energy Performance Share. Measurement of the TSR is based upon the two equity components, weighted 50% each, consisting of Duke Energy common stock and Spectra Energy common stock, using the post-distribution Duke Energy and Spectra Energy stock prices as the bases of measurement.

Under the Spectra Energy 2007 LTIP, we can also grant performance awards. The terms of the awards under Spectra's plan are substantially the same as the performance awards described under the Duke plan above. Under the Spectra plan, the TSR of Spectra Energy common stock is compared to a revised group of peer companies. We granted 67,600 performance awards (fair value of US $1 million) during 2009 and we granted 51,500 performance awards (fair value US $2 million) during 2008. No performance awards were granted in 2007. The unvested and outstanding performance awards granted contain market conditions based on the TSR of Spectra Energy common stock relative to a pre-defined peer group (relative TSR). These awards are valued using the Monte Carlo valuation method.

Weighted -Average Assumptions for Market Based Awards

	2009
Risk free interest rate	1.4%
Expected life (years)	3
Expected volatility Spectra Energy	41.2%
Expected volatility Peer Group	20.8-53.1%
Market Index	28.5%
Expected dividend yield	-

The risk-free rate of return was determined based on a yield of three year U.S. Treasury bonds on the grant date. The expected volatility was established based on historical volatility over three years using daily stock price observations. A shorter period was used if three years of data was not available. Because the award payout includes dividend equivalents, no dividend yield assumption is required.

Compensation expense for the performance awards is charged to earnings over the vesting period, and totalled approximately US $1 million in 2008 and less than $1 million in 2009.

The total fair value of the performance shares vested was $333,746 in 2009, $333,522 in 2008 and $220,790 in 2007. As of December 31, 2009, we expect to recognize $1 million of future compensation cost related to stock awards over a weighted-average period of two years.

Phantom Stock Awards

Stock-based phantom awards granted under the 2007 LTIP generally vest over three years. Spectra Energy awarded 47,600 phantom awards (fair value of $1 million) to our employees during 2009, 63,000 awards (fair value of US$1 million) in 2008 and 32,700 phantom awards (fair value $1 million) to our employees during 2007.

The total fair value of the phantom shares vested was $111,258 in 2009, $130,134 in 2008 and $350,991 in 2007. As of December 31, 2009, we expect to recognize $1 million of future compensation cost related to stock awards over a weighted-average period of two years.

11. Capital Management

The Company's objectives in managing its capital include the continuation of its ability to serve customers and to generate the OEB allowed rate of return for its shareholders while maintaining the OEB-approved level of common equity.

In managing capital, management considers both debt and equity. The mix of debt and equity components is driven by prevailing market conditions, as the Company may take advantage of lower interest rates by issuing debt or utilizing available credit facilities. The Company is required by Undertakings to the Lieutenant Governor in Council of Ontario to maintain sufficient common equity at the level approved by the OEB. The quarterly dividend payment is determined to allow the Company to maintain the common equity component at the level approved by the OEB.

Various debt covenants require the Company to maintain Indebtedness[18] equal to a maximum of 75% of Total Capitalization[19].

As at December 31, 2009 and 2008, the Company was in compliance with the following externally imposed capital requirements. The Company monitors these requirements on a quarterly basis.

	2009	2008
OEB-approved minimum Common Equity	**36.00%**	36.00%
Allowed Return on Equity – regulated operations	**8.54%**	8.54%
Maximum Total Indebtedness to Total Capitalization	**75.00%**	75.00%
Actual Total Indebtedness to Total Capitalization	**61.00%**	64.50%

[18] Indebtedness includes short-term borrowings, commercial paper, long-term debt and letters of credit.
[19] Capitalization includes shareholders-equity plus indebtedness.

12. Financial Instruments

Under Canadian GAAP, financial instruments are classified into one of the following five categories: held-for trading, held to maturity investments, loans and receivables, available-for-sale financial assets and other financial liabilities. The carrying value of the Company's financial instruments are classified into the following categories:

Classification

($millions)	**2009**	2008
Financial assets held for trading[20]	**34**	–
Loans and receivables[21]	**371**	507
Other financial liabilities[22]	**2,434**	2,799

The fair values of the Company's financial instruments are not materially different from their carrying value, with the exception of the Company's long-term debt of $2,212 million (2008 – $2,240 million). Based on current interest rates for debt with similar terms and maturities, the fair market value is estimated to be $2,484 million (2008 – $2,290 million).

Fair value hierarchy

Financial instruments recorded at fair value on the Consolidated Balance Sheet are valued using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

Cash and cash equivalents are the only financial instruments recorded at fair value in the Consolidated Balance Sheet and are classified as level 1.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The long-term debt bears interest at fixed rates and therefore the cash flow exposure is not significant. However, the fair value of loans having fixed rates of interest could fluctuate because of changes in market interest rates. Short-term borrowings have a limited exposure to interest rate risk due to their short-term maturity.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligation. The maximum exposure to credit risk at period end is the carrying value of its financial assets. The Company's principal customers for natural gas transportation and storage services are industrial end-users, marketers, local distribution companies and utilities. The Company's distribution

[20] Includes cash and cash equivalents

[21] Includes accounts receivable

[22] Includes accounts payable and accrued charges, short-term borrowings, long-term debt, and mandatorily redeemable preference shares

customers are primarily industrial and residential end-users. These concentrations of customers may affect the Company's overall credit risk.

The Company, in the normal course of its operations, provides gas loans to other parties from its holdings of gas in storage. The replacement amount of gas loans at December 31, 2009 is $47 million receivable (2008 - $86 million receivable). The Company manages its credit exposure related to gas loans by subjecting these parties to the same credit policies it uses for all customers, and obtaining collateral when appropriate.

The Company manages its credit risk on cash and cash equivalents by dealing solely with reputable banks and financial institutions. To manage its credit risk on accounts receivable, the Company performs ongoing credit reviews of all its customers. In cases where the credit quality of a customer does not meet the Company's requirements, a cash deposit, letter of credit or parental guarantee is required. Deposits held by the Company at December 31, 2009 amounted to $58 million (2008 - $64 million). Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the account receivable may be uncollectible and therefore should be included in the allowance for doubtful accounts.

Recently, there have been significant equity and commodity market declines driven by general economic factors and credit concerns, primarily in the financial services sector. Union Gas continues to utilize its established risk management policies and procedures to ensure the appropriate monitoring of customer credit positions and, based on current evaluations, does not expect any significant negative impacts associated with these positions.

The following table sets forth details of the age of trade receivables that are not impaired as well as a summary of impaired amounts and their related allowance for the doubtful accounts:

($millions)	**2009**	2008
Current	**243**	412
30 Days over due	**9**	12
60 Days over due	**3**	3
90+ Days over due	**9**	9
Total trade accounts receivable	**264**	436
Allowance for doubtful accounts	**(6)**	(7)
Total trade accounts receivable, net[23]	**258**	429

For the years ended December 31, 2009 and 2008, no one customer accounted for more than 10% of sales or 10% of receivables.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. The Company has credit facilities available to help meet short-term financing needs (note 6).

[23] The carrying amount of accounts receivable is impacted by changes in gas prices, which may fluctuate significantly from year to year.

The following are the contractual maturities of the undiscounted cash flows of financial liabilities as at December 31, 2009:

($millions)	Total	Less than 1 year	2 – 3 years	4 – 5 years	More than 5 years
Commercial paper	39	39	–	–	–
Accounts payable and accrued charges	794	794	–	–	–
Long-term debt (including principal and interest)	3,862	379	512	395	2,576
Mandatorily redeemable preference shares	5	–	–	–	5
Total	4,700	1,212	512	395	2,581

13. Employee Future Benefits

The Company sponsors five defined benefit registered pension plans and one registered pension plan with both a defined benefit provision and a defined contribution provision. Eligible employees of the Company participate in one of these registered pension plans. All of the defined benefit plans provide a final average earnings related benefit. The Company makes contributions to the defined contribution plan based on the salary, age and service of each member. Supplemental defined benefit pensions are provided to all employees affected by the maximum pension limits under the Income Tax Act. Other post-retirement benefits provided include health and dental benefits, life insurance coverage and a health care spending account.

The Company uses a measurement date of September 30. In determining the accrued benefit obligations and current service costs, the Company uses management's best-estimate assumptions, except for the liability discount rate, which is determined as the yield on high quality fixed income investments with a term to maturity similar to the covered benefits.

The transitional obligation at January 1, 2000 from adopting CICA Section 3461, Employee Future Benefits, is being amortized on a straight line basis over the expected average remaining service lifetime of employees active at January 1, 2000.

The Company made the following employee future benefit contributions:

($millions)	**2009**	2008
Defined benefit plans	**41**	28
Defined contribution pension plan	**4**	3
Supplemental pension	**1**	1
Other than pensions	**3**	3
	49	35

Benefit Obligations, Plan Assets and Funded Status

	Pension		Other	
($millions)	**2009**	2008	**2009**	2008
Change in benefit obligations				
Balance, beginning of year	**529**	544	**49**	49
Employer current service cost	**9**	10	**1**	1
Member contributions	**3**	3	**–**	–
Interest cost	**31**	30	**3**	3
Benefits paid	**(27)**	(27)	**(3)**	(3)
Actuarial loss (gain)	**40**	(31)	**10**	(1)
Balance, end of year	**585**	529	**60**	49
Change in fair value of assets				
Fair value, beginning of year	**418**	480	**–**	–
Actual return on plan assets	**6**	(60)	**–**	–
Employer contributions	**43**	22	**3**	3
Member contributions	**3**	3	**–**	–
Benefits paid	**(27)**	(27)	**(3)**	(3)
Fair value, end of year	**443**	418	**–**	–
Funded status				
Net funded status	**(142)**	(111)	**(60)**	(49)
Unamortized net actuarial loss	**238**	177	**11**	1
Unamortized past service costs	**7**	8	**–**	–
Unamortized transitional obligation	**7**	9	**9**	11
Contributions remitted after measurement date	**11**	12	**1**	1
Accrued benefit asset (liability), end of year	**121**	95	**(39)**	(36)
Classification of accrued benefit assets (liabilities)				
Investments and other assets	**137**	110	**–**	–
Regulatory and other liabilities	**(16)**	(15)	**(39)**	(36)
Accrued benefit asset (liability)	**121**	95	**(39)**	(36)
Allocation of assets to major classes				
Equity securities	**60%**	57%	**–**	–
Debt securities	**40%**	43%	**–**	–

For 2009 and 2008, all of the defined benefit pension plans had accrued benefit obligations that exceeded the fair value of plan assets. The other post-retirement benefit plans are not pre-funded.

	Years Ended December 31,			
	Pension		Other	
($millions)	**2009**	2008	**2009**	2008
Net benefit cost				
Current service cost	**9**	10	**1**	1
Interest cost	**31**	30	**3**	3
Actual return on plan assets	**(6)**	60	**–**	–
Actuarial losses (gains)	**40**	(31)	**10**	(1)
Amortization of transitional obligation	**2**	2	**2**	2
Past service cost	–	1	**–**	–
Difference between actual and expected return	**(27)**	(95)	**–**	–
Difference between actual and recognized actuarial gains in year	**(34)**	38	**(10)**	1
Difference between actual and recognized past service costs in year	**1**	–	**–**	–
Annual benefit plan cost	**16**	15	**6**	6
Defined contribution cost	**4**	3	**–**	–
Total net benefit cost	**20**	18	**6**	6
Weighted average assumptions used to determine benefit liability				
Discount rate at measurement date	**5.62%**	5.98%	**5.69%**	6.03%
Rate of compensation increase	**3.50%**	3.50%	**3.50%**	3.50%
Initial overall health care trend rate	**–**	–	**8.00%**	8.00%
Annual rate of decline in health care trend rate	**–**	–	**0.50%**	0.50%
Ultimate health care cost trend rate	**–**	–	**5.00%**	5.00%
Year that the rate reaches the ultimate trend rate	**–**	–	**2016**	2015
Weighted average assumptions used to determine net benefit cost				
Discount rate	**5.98%**	5.50%	**6.03%**	5.50%
Expected rate of return on plan assets	**7.00%**	7.25%	**–**	–
Rate of compensation increases	**3.50%**	3.50%	**3.50%**	3.50%
Initial overall health care trend rate	**–**	–	**8.00%**	8.00%
Annual rate of decline in health care trend rate	**–**	–	**0.50%**	1.00%
Ultimate health care cost trend rate	**–**	–	**5.00%**	5.00%
Year that the rate reaches the ultimate trend rate	**–**	–	**2015**	2011

Sensitivity of key assumption

($millions)	Post-Retirement Benefits Other than Pensions	
Assumed change in health care cost trend rate	**1% Increase**	**1% Decrease**
Change in obligation	**5**	(5)

14. Income Taxes

The provision for income taxes consists of the following:

($millions)	**2009**	2008
Current	**103**	37
Future	**(55)**	4
	48	41

The year-over-year change in the components of current and future income taxes is primarily due to the difference in the treatment of the approved cost and the actual cost of gas for income tax and accounting purposes.

Net income taxes paid in 2009 were $47 million (2008 - $28 million).

Reconciliation between the combined Federal and Ontario statutory tax rate and the effective rate of income taxes is as follows:

($millions)	**2009**	2008
Income before income taxes	**223**	221
Statutory income tax rate (percent)	**33.0**	33.5
Statutory income tax rate applied to accounting income	**74**	74
Increase/(decrease) resulting from:		
Future income tax differential under flow through accounting	**–**	**(27)**
Future tax recovery resulting from tax rate changes	**(44)**	**–**
Future regulatory income tax payable/receivable recorded through tax expense	**18**	(5)
Other	**–**	(1)
Provision for income taxes	**48**	41
Effective rate of income tax (percent)	**21.0**	18.9

The future income taxes recorded in current assets of $57 million (2008 – $10 million) arise from temporary differences primarily related to regulatory deferral accounts.

The long-term future income tax liability of $327 million (2008 - $108 million) includes the following:

($millions)	**2009**	2008
Temporary differences related to pension asset	**26**	19
Temporary differences related to accelerated depreciation rates	**301**	89
	327	108

15. Related Party Transactions

The Company purchases gas and transportation services at prevailing market prices and under normal trade terms from commonly controlled companies. During the year ended December 31, 2009, these purchases totalled $1 million (2008 - $1 million). The Company may also provide storage and transportation services to commonly controlled companies under normal trade terms. Storage and transportation services provided to commonly controlled companies totalled $2 million during 2009 (2008 – less than $1 million).

The Company provided administrative, management and other services to commonly controlled companies totalling $9 million (2008 - $8 million), which were billed and recovered at cost. Charges from related parties for administrative and other goods and services were $7 million (2008 - $6 million).

At December 31, 2009 the Company had receivable balances of $4 million (2008 - $2 million) and payable balances of $5 million (2008 - $6 million) with commonly controlled companies, and receivable balances of $2 million (2008 – less than $1 million) and payable balances of $1 million (2008 – nil) with companies under significant influence, all of which are recorded in accounts receivable and accounts payable and accrued charges, respectively.

During 2009, the Company obtained from and provided unsecured loans to Westcoast. The balance outstanding on these loans at December 31, 2009 was a $6 million receivable (2008 – $115 million payable). These loans are classified as cash equivalents in 2009 (2008 – short-term borrowings). Interest received on these loans during 2009 totalled less than $1 million (2008 – less than $1 million) and interest paid on these loans totalled less than $1 million in 2009 (2008 – $2 million). Interest on these loans is calculated based on the monthly average of 30-day banker’s acceptance rates.

16. Contingencies

The Company, in the course of its operations, is subject to environmental and other claims, lawsuits and contingencies. Accruals are made in instances where it is probable that liabilities will be incurred and where such liabilities can be reasonably estimated. The Company has no reason to believe that the ultimate outcome of these matters could have a significant impact on its consolidated financial statements.

17. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year’s presentation.

DIRECTORS

David G. Unruh

Julie A. Dill

Bruce E. Pydee

OFFICERS

Julie A. Dill
Chair and President

J. Patrick Reddy
Chief Financial Officer

M. Richard Birmingham
Vice President, Regulatory and Public Affairs

Bruce E. Pydee
Vice President and General Counsel

Bohdan I. Bodnar
Vice President, Human Resources

Menelaos Ydreos
Vice President, Marketing and Customer Care

Stephen W. Baker
Vice President, Business Development – Storage and Transmission

Michael P. Shannon
Vice President, Engineering, Construction and Storage and Transmission Operations

Paul Rietdyk
Vice President, Distribution Operations

Joe R. Martucci
Vice President, Finance

Allen C. Capps
Vice President and Treasurer

Paul K. Haralson
Assistant Treasurer

Patricia M. Rice
Corporate Secretary

Leigh A. Hodgins
Assistant Secretary

Joseph Marra
Assistant Secretary

CORPORATE INFORMATION

Transfer Agent and Registrar
CIBC Mellon

Union Gas Limited preference shares are listed on the Toronto Stock Exchange
Class A Preference, Series A – 5½% (UNG.PR.C)

Class A Preference, Series B – 6% (UNG.PR.D)

REGISTERED OFFICE

50 Keil Drive North Chatham, Ontario N7M 5M1

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Ref: Exhibit A, Tab 2

Please provide a reconciliation (similar to that found in the evidence of Enbridge in EB-2010-0042 at reference Exhibit B/Tab 1/Sch 4/Page 1/4) of the 2009 audited consolidated income statement for Union Gas Limited with the Utility Income Statement for the 2009 Historical Year that is used in the Earnings Sharing calculations.

Response:

Please see the attachment.

Filed: 2010-06-28
EB-2010-0039
Exhibit B1.10
Attachment

UNION GAS LIMITED
Earnings Sharing Calculation
Year Ended December 31, 2009

Line No.	Particulars ($millions)	Annual Report (b)	Exhibit A Tab 2 Appendix B Schedule 1 Column (a) Updated (a)	Difference (c)	Notes
1	Gas sales and distribution revenue	1,684	1,699	-15	(i)
2	Cost of gas	1,026	1,026	0	
3	Gas distribution margin	658	673	-15	
4	Storage and transportation revenue	299	299	0	
5	Other revenue	36	36	0	
6		993	1,008	-15	
	Expenses				
7	Operating and maintenace	345	333	12	(ii)
8	Depreciation and amortization	195	194	1	(iii)
9	Property and capital taxes	68	68	0	
10		608	595	13	
11	Income before other items	385	413	-28	
12	Other (income) and expenses, net	2	11	-9	(iv)
13	Income before interest and income taxes	383	402	-19	

Notes:

(i)	Estimated Earnings 2009 sharing provision and 2008 adjustment	
(ii)	Reclassification from O&M to Other expenses	8
	Huron Tipperary (unregulated) results as shown in the external financial statements	1
	Accounting provisions	3
		12
(iii)	Huron Tipperary (unregulated) results as shown in the external financial statements	
(iv)	Reclassification from O&M to Other expenses	-8
	Huron Tipperary (unregulated) results as shown in the external financial statements	-1
		-9

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Ref: Exhibit A, Tab 2

Please provide all the information and the calculation used to determine the benchmark ROE as well as the current ROE, including all work sheets.

Response:

Please see attached for the calculation of the benchmark ROE.

The current ROE is calculated based on the following schedules:
Exhibit A, Tab 2, Appendix B, Schedule 1 – Earnings Subject to Sharing and ROE
Exhibit A, Tab 2, Appendix A, Schedule 4 – Cost of Capital
Exhibit A, Tab 2, Appendix A, Schedule 14 – Utility Income Taxes
Exhibit A, Tab 2, Appendix A, Schedule 18 – Rate Base

Filed: 20100628
EB-2010-0039
Exhibit B1.11
Attachment

Formula Based Return on Equity (ROE) Calculation

10 Year Consensus Forecast - October 2008		
3 Month		3.50%
12 Month		3.80%
Average		3.65%
Average Spread on 10 & 30 Year Canadian Bonds		0.49%
Average Long Canada		4.14%
Adjustment factor		
Long Canada in E.B.R.O. 499	7.25%	
Average above	4.14%	
	3.11%	
25% of difference		0.78%
Risk Premium		3.55%
Formula Based ROE		8.47%

Notes:

1) As per E.B.R.O. 499 the risk premium was approved at 3.55% @ a Long Canada of 7.25%.

2) The 10 Year Consensus Forecast is per the Consensus Forecasts as published by Consensus Economics, Inc.

3) The average spread on the 10 & 30 year Canadian Bonds rate are as reported in the Financial Post. The average is based on the October spread covering 25 days (September 8 - October 10).

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Ref: Exhibit A, Tab 4

Please indicate if Union is planning to file a cost allocation study as part of its 2013 Cost of Service filing.

Response:

Yes, Union will file a cost allocation study for its regulated business as part of its 2013 cost of service evidence.

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Ref: Exhibit A, Tab 4

Please explain why the 2007 cost allocation study would still be relevant today when that study was filed in 2005, completed prior to that date and approved as part of a Settlement Agreement. Are the allocators used in the 2007 study still valid today given lower average uses, as well as the lower cost of gas?

Response:

As a result of the NGEIR decision (November 2006), it was necessary for Union to separate the unregulated financial information from the regulated utility financial information. Consistent with the Board's finding in the NGEIR decision, Union used the 2007 cost allocation study which was the most recent Board approved cost allocation study at that time. The 2007 cost allocation study is also the last cost allocation study that addressed storage related costs for both in-franchise and ex-franchise storage services. Further, the 2007 Board-approved cost study underpins Union's delivery rates under incentive regulation. Union cannot change the costs included in rates until Union files its rebasing evidence for 2013.

The primary purpose of the 2007 cost allocation study, in terms of allocating costs between regulated and unregulated storage operations, is the separation of storage assets existing at the time of the NGEIR decision. The separation of existing storage assets necessarily happened at the outset of the implementation of the NGEIR Decision and will not be revisited in subsequent years. As indicated at Exhibit A, Tab 4, page 14, once the allocation of existing storage assets is determined, all new storage assets will be directly assigned to the unregulated storage operation. The only relevant cost allocation study to be used for the purpose of splitting Union's existing storage assets is the one prepared in support of 2007 rates and just prior to the release of the NGEIR decision.

With respect to the allocation of gas costs and operating and maintenance costs between the regulated and unregulated storage operations, these allocations are updated annually to reflect current activity levels.

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Ref: Exhibit A, Tab 4

Please provide details of any differences between the proposed cost allocation methodology and the referenced 2007 cost allocation study.

Response:

Union's Board-approved 2007 cost allocation study methodology was used to allocate costs to Union's unregulated storage operations. Where, however, the 2007 cost study allocated costs for groups of assets for the purposes of setting rates, the allocation of costs to Union's unregulated storage operations required the allocation of individual assets in order to maintain the proper accounting records at the asset level. In some cases, it was necessary to adjust the Board-approved allocation factors to ensure the appropriate allocation at the asset level.

EB-2005-0520 Board-approved cost allocation methodology	**Methodology used to allocate costs to Union's unregulated storage operations**
Cost of gas	Cost of gas
The compressor fuel budget is allocated to storage and transmission in proportion to forecast volume. Storage fuel is allocated to ex-franchise storage services in proportion to forecast volume.	Actual fuel used at Dawn is allocated to unregulated storage based on actual unregulated storage activity levels.
Unaccounted for gas (UFG) costs are allocated to storage and transmission in proportion to forecast volume. Storage UFG is allocated to ex-franchise storage services in proportion to forecast volume.	Unaccounted for gas costs are allocated to unregulated storage in proportion to actual unregulated storage activity levels.

Existing Underground Storage Assets	Existing Underground Storage Assets
Certain assets (specific structures, measuring and regulating and compression assets) in the Dawn Station yard are installed solely for transmission purposes and are directly assigned to the transmission function. These assets include the meter runs into the Dawn-Trafalgar system, metering at Tecumseh, Oil Springs and TCPL, and the Great Lakes header. The Dawn Plant E compressor is not directly assigned to transmission in Union's Board-approved cost allocation study.	Consistent with the Board-approved 2007 cost allocation methodology, the meter runs into the Dawn-Trafalgar system, metering at Tecumseh, Oil Springs and TCPL, and the Great Lakes header are directly assigned to the transmission function. In addition, the Dawn Plant E compressor, which was installed to provide transmission compression from Dow-Moore into the Dawn-Trafalgar system, is directly assigned to transmission.
Compression-related assets that are not directly assigned to transmission provide both storage and transmission services at Dawn and are allocated between storage and transmission functions based on horsepower requirements. Union's Board-approved 2007 cost allocation study allocated 44.4% of Dawn compression related costs to the storage function and 55.6% of Dawn compression-related costs to the transmission function. These factors were applied to total compression-related costs.	Compression-related assets are allocated at the individual asset level. Outboard storage compressors located at Union's storage pools are directly assigned to storage. As noted above, the Dawn Plant E compressor is directly assigned to transmission. Compression-related costs of assets that are used to provide storage and transmission services were split between storage and transmission based on a horsepower allocation that excluded the outboard storage compressors and the Dawn Plant E compressor. This resulted in an adjusted Board-approved horsepower allocation that allocates 52.7% of Dawn compression-related costs to the storage function and 47.3% of Dawn compression-related costs to the transmission function.

Measuring and regulating equipment assets that are not directly assigned to transmission provide both storage and transmission services at Dawn and are allocated between storage (26%) and transmission (74%) based on the forecasted activity into and out of Dawn. The storage costs are classified as deliverability. Storage deliverability costs are allocated to rate classes based on design day demands from storage (the NETFROMSTOR allocator), which allocated 39.2% of these storage costs to ex-franchise storage services. The result is that 10.2% of allocated M&R costs are allocated to ex-franchise storage services.	For measuring and regulating equipment assets that are not directly assigned Union used the 2007 Board-approved split of assets between storage and transmission and allocated the storage assets to unregulated storage using an average storage space and deliverability allocator of 37.7%. The result is an allocator for measuring and regulating equipment of 9.9% for unregulated operations.
Storage land, land rights, buildings, wells and lines and base pressure gas are classified between space, deliverability and system integrity, and are allocated to ex-franchise storage services based on space, deliverability and system integrity allocators.	Storage assets are allocated to unregulated storage using an average storage space and deliverability allocator of 37.7%.
General Plant	General Plant
In Union's Board-approved 2007 cost allocation study, general plant assets are assigned to the storage function in proportion to net plant and O&M and classified in the same manner. Costs are allocated to ex-franchise storage services based on the space, deliverability, commodity and system integrity allocators.	General plant is separated into two categories to determine the allocation factor for the unregulated storage operations. Vehicle assets to be removed from Union's regulated utility rate base and allocated to Union's unregulated storage operations were allocated using the average space and deliverability factor used for other storage assets. The second category of general plant includes all other categories of general plant which is allocated to unregulated storage using the methodology for allocating general plant within the Board-approved cost allocation study.

Operating & Maintenance Expenses	Operating & Maintenance Expenses
O&M is allocated based on an analysis of activities or in the same manner as the underlying assets. Costs are allocated to ex-franchise storage services based on the space, deliverability, commodity and system integrity allocators.	Actual O&M related to the operation of the storage facilities was allocated to the unregulated storage operation using the same allocators applied to the assets for that facility. O&M related to the support of the storage operations was allocated to unregulated storage operations using factors provided by management based an analysis of activities as part of the forecast process.

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Ref: Exhibit A, Tab 4, page 5

Please explain why in most instances the allocation factor is a ratio while for third party storage space a dollar amount is used. Please indicate the level of revenues associated with the third party storage costs.

Response:

Third party storage costs included in the 2007 cost allocation study are allocated on the same basis as other storage space related costs. $0.179 million is the amount of third party storage costs allocated to unregulated storage in the 2007 cost allocation study.

Union does not separately track revenue associated with third party storage contracts.

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Ref: Exhibit A, Tab 4, page 6

Union has provided a list of storage assets and information on separation of existing underground storage assets between regulated and unregulated storage operations. Please explain whether cushion gas is a part of the storage assets and has it been allocated between regulated and unregulated operations? Please provide a detailed response including the allocation percentage of cushion gas.

Response:

Yes, cushion gas has been allocated between Union's regulated and unregulated storage operations.

Consistent with Union's approach to allocating storage lines, storage wells, and outboard compression assets between its regulated and unregulated storage operations, 37.7% of cushion gas has been allocated to Union's unregulated storage operations.

The amount of cushion gas allocated to the unregulated storage operations as at December 31, 2009 is shown at Exhibit A, Tab 4, Schedule 5, page 1, line 7.

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Ref: Exhibit A / Tab 4 / Page 16

On lines 10-12, it is indicated that the operating costs related to individual storage pools are separated between unregulated and regulated storage the same way the storage pool assets are allocated. Please answer the following questions:

a) Are some storage pools identified or tagged as serving the regulated and unregulated businesses?

b) If answer to (a) is Yes, please provide details of the storage pools that serve the unregulated business including the amount of cushion gas in these storage pools.

Response:

a) Yes. In the allocation of the 2007 assets all existing storage pools where allocated between the regulated and unregulated storage operations. Two new storage pools have been added since 2007. The two new pools have been allocated 100% to the unregulated storage operation.

b) Please see the attachment.

Base Pressure Gas by Storage Pool
as of December 31, 2009

			Asset Value ($000's)		
Line	Pool	Volume $10^6 m^3$	Regulated	Unregulated	Total
1	Bentpath	65.8	$ 2,317	$ 1,400	$ 3,717
2	Bentpath East	44.1	1,272	769	2,041
3	Bickford	169.8	1,272	768	2,040
4	Black Creek	5.0	-	-	-
5	Bluewater	12.8	854	516	1,370
6	Booth Creek	14.1	276	167	443
7	Dawn 156	276.6	4,365	2,637	7,002
8	Dawn 167	90.3	3,462	2,091	5,553
9	Dawn 47 - 49	52.3	405	245	650
10	Dawn 59 - 85	122.0	923	558	1,481
11	Dow A	36.0	1,920	1,160	3,080
12	Dow Moore	72.2	2,705	1,634	4,339
13	Edys Mills	23.2	1,832	1,107	2,939
14	Enniskillen	31.8	200	121	321
15	Heritage	5.4	-	1,660	1,660
16	Mandaumin	24.5	1,370	828	2,198
17	Oil City	14.0	1,023	618	1,641
18	Oil Springs East	31.4	1,833	1,107	2,940
19	Payne	171.3	855	516	1,371
20	Rosedale	40.8	1,268	766	2,034
21	Sombra	34.5	878	530	1,408
22	Terminus	107.0	1,201	726	1,927
23	Waubuno	72.6	119	72	191
24	Total	1,517.5	$ 30,350	$ 19,996	$ 50,346

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Ref: Exhibit A, Tab 4, page 14

The evidence on page 14 specifies that if a project is a necessary part of normal business operations, then the new asset is split in the same way as the existing asset.

a) What is the process for determining whether an asset is a part of normal business operations?

b) Why would the new asset be split between the regulated and unregulated businesses when ratepayers are allocated a fixed amount of total storage capacity?

c) Isn't the correct test that if the asset is not added or replaced and if the ratepayers still has access to 100 PJs, then the replacement would not be allocated to the regulated business? Please explain.

Response:

a) Capital projects are identified as replacements or additions as part of the planning process. A capital project would be determined to be part of normal business operations if it is a replacement of an existing asset with no additional capacity being created.

b) A new asset would be split between regulated and unregulated operations if the new asset replaced an existing asset. In this case, it is appropriate to split the new asset because, as was the case with the existing asset, it will be used to provide both regulated and unregulated storage services.

c) The replacement of the existing asset with a new asset is required to ensure that access is maintained to the 100 PJs of space for the benefit of both the regulated and unregulated operations.

UNION GAS LIMITED

Answer to Interrogatory from
Consumers Council of Canada ("CCC")

Ref: Exhibit A, T1, page 2

Union has indicated that the average historical impact of not truing up deferral account balances has been $320,000 to the benefit of the ratepayer. Please provide the variance in each year since the IRM has been in place. What are the challenges for Union in terms of truing up the balances? Why shouldn't the actual balances be cleared?

Response:

The average historical impact as presented in the prefiled evidence contained a calculation error. When Union calculated the average, the actual 2005 over-recovery of $0.521 million was incorrectly entered as an under-recovery. The correct historical average is $25,000 to Union's benefit. It is still Union's view that the annual variances do not warrant the implementation of a deferral account true-up.

Please refer to the table below.

Historical Disposition Recovery (In-Franchise)
($000's)

Year	Projected Recovery/(Refund)	Actual Recovery/(Refund)	Variance
2007	$ (5,335)	$ (5,677)	$ (342)
2006	(6,074) [1]	(6,179)	(105)
2005	(8,312) [1]	(7,791)	521
Average	$ (6,574)	$ (6,549)	$ 25

[1] Includes deferral balances and earnings sharing amount for disposition.

The average historical impact was calculated from 2005 to 2007. Union does not have data prior to 2005.

Beyond the additional administration required to track variances and reallocate to ratepayers, there are no significant challenges to truing up the over or under-recovery of balances from deferral and earnings sharing dispositions.

UNION GAS LIMITED

Answer to Interrogatory from
Consumers Council of Canada ("CCC")

Ref: Exhibit A, T1, pages 5-8

For each of the storage services please provide a detailed explanation as to why the balances are significantly above the Board approved levels. Specifically how did Union earn $22.8 million on Short-term Services and $50.9 million in Long-term Peak Services?

Response:

Please see the attachment.

Short Term Storage Services 179-170

Line No.	Service	2009	2007 BA	Variance	Explanation
1	C1 Off-Peak Storage	$4,344	$1,000	$3,344	Increase in Market Prices and storage space
2	Supplemental Balancing Services	2,903	2,000	903	Increase in balancing activity
3	Gas Loans	3,922	1,000	2,922	Increase in loan opportunities
4	Enbridge LBA	-	75	(75)	Included in balancing above for actual reporting
5	C1 ST Firm Peak Storage	17,746	13,794	3,952	Increase in storage space available for sale
6	C1 Firm ST Deliverability	-	92	(92)	Included in peak storage above for actual reporting
7		28,914	17,961	10,953	
8	Costs	(6,125)	(2,131)	(3,994)	Please refer to the response at B3.02 for specific explanations
9	Margin	22,789	15,829	6,960	

Long Term Storage Services 179-172

Line No.	Service	2009	2007 BA	Variance	Explanation
1	Long Term Peak Storage	$85,230	$42,058	$43,172	Increase in Long Term storage space and market prices
2	T1 Deliverability and upstream balancing	797	-	797	New Energy Power Market Services
3	Downstream Balancing	634	-	634	New Energy Power Market Services
4	Dehydration Service	1,199	-	1,199	Previously included with M12 Storage service
5	Storage Compression	347	-	347	New Compression Service
7	High Deliverability Storage	18,166	-	18,166	$14.444 million increase related to new High Deliverability Storage.
8		106,372	42,058	64,314	
9	Costs	(55,391)	(20,653)	(34,738)	Overall increase in incremental costs including additional third party storage costs. Please refer to the response at B3.02 for specific explanations
10	Margin	50,981	21,405	29,577	

UNION GAS LIMITED

Answer to Interrogatory from
Consumers Council of Canada ("CCC")

Ref: Exhibit A, T1, page 12

Please explain to what extent the amounts in the DSMVA are affected by the outcome of the 2009 DSM Audit process.

Response:

The DSMVA will not be impacted by the 2009 audit process.

UNION GAS LIMITED

Answer to Interrogatory from
Consumers Council of Canada ("CCC")

Ref: Exhibit A, T1, page 20

Please provide a detailed breakdown of each element of the IFRS Conversion costs for 2008 and 2009.

Response:

Please see the response at Exhibit B1.06.

UNION GAS LIMITED

Answer to Interrogatory from
Consumers Council of Canada ("CCC")

Ref: Exhibit A, T4

In determining the cost allocation methodology to be applied to Union's regulated and unregulated storage businesses did Union retain an independent consultant to assist with the study? If so, please provide copies of any reports prepared by the consultants. If not, why not?

Response:

Union did not hire a consultant to determine the methodology for allocating costs to the unregulated storage operations. Based on the Board's findings in the NGEIR decision Union used the approved 2007 cost allocation methodology.

Union retained KPMG to facilitate the implementation of the approved methodology. The documentation prepared by KPMG to summarize this work is attached.

KPMG

KPMG Advisory

unionGas
A Spectra Energy Company

Unregulated Operations Accounting and Reporting Documentation

May 14, 2008

AUDIT ▪ TAX ▪ ADVISORY

Table of Contents

Disclaimer

I: Documentation Summary

The NGEIR decision of November, 2006, created an unregulated storage operation within Union's existing operations. The accounting for unregulated storage operations is required to follow Canadian GAAP, which in some cases differs from the regulated utility accounting treatments currently employed by Union. As a result, Union was required to implement various accounting and process changes to its existing financial and management reporting.

The purpose of this document is to provide an overview of the steps taken by Union in working with KPMG as the facilitator to allow for Union to report for the revenue, costs and property, plant and equipment (PP&E) related to unregulated storage operations. The document is broken down across the various impact areas and as a point of reference, the document also includes an unregulated storage operation P&L for 2007 actuals and outlook 2008. Lastly, this documentation references more detailed supporting files which can be found on the supplemental CD that accompanies this documentation.

Going forward to ensure consistent accounting and reporting for Unions unregulated storage operation it is recommended that the following high level tasks be completed by Union according to the specified times as set out in Table 1 below. File: Unregulated Reporting.xls

Table 1 - File: Unregulated Reporting.xls

Area	High Level Task	Recommended Frequency
Regulatory	Provide Cost Study based allocators to the Revenue, PP&E and O&M Groups	Yearly
Revenue & Cost of Gas	Report Unregulated Storage Revenue & Cost of Gas (actuals & plan) with a true-up for actual UFG and Compressor Fuel	Monthly
	Provide Unregulated forecast & plan data	As required
	Update the UFG and Compressor Fuel Ratio	Yearly
O&M	Report Unregulated Storage Net O&M (actuals & plan)	Monthly
	Maintain settlement rules in the O&M Mapping File for new orders or other internal order changes	On-going
	Update O&M allocators and settlement rules	Yearly
	Provide Unregulated forecast & plan data	As required
	Book Unregulated Property Tax expense according to plan	Monthly
	Request actual Property Tax expense from the Property Tax group and true-up Unregulated Property Taxes using the current allocators	Yearly
PP&E	Report Unregulated Storage PP&E values and depreciation (actuals & plan)	Monthly
	Capitalize assets as either 100% unregulated storage or apply the current Unregulated allocator to the shared asset	On-going
	Update PP&E allocation factors (Underground Storage & General Plant)	Yearly
	Provide PP&E allocators to the O&M Group	Yearly
	Provide Unregulated forecast & plan data	As required
Reporting	Consolidated unregulated storage income statement results.	Monthly

2: Guiding Principles & Storage Definition

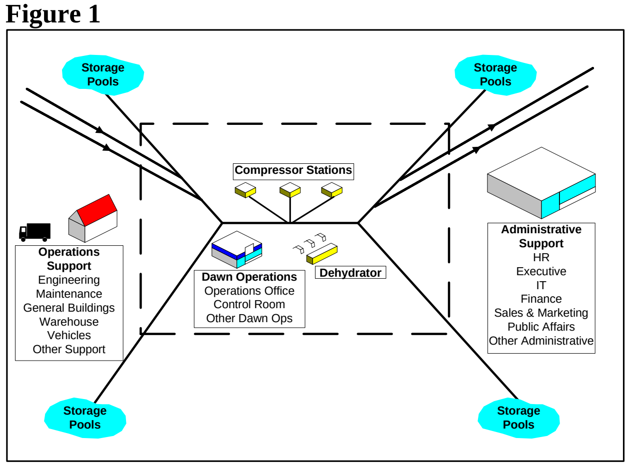
Guiding principles and storage definitions were developed and agreed upon by Union to allow for consistency in the accounting and reporting for Unions unregulated storage operations.

These guiding principles were as follows:

- The net unregulated storage position will not entirely reflect the costs of a stand alone storage business
- The revenue and cost of gas associated with unregulated operations is equal to total storage revenue less the amount of margin associated with both short and long-term storage revenue shared with the rate payer
- The revenue and cost of gas associated with unregulated operations is equal to total storage revenue less the prescribed rate and NGEIR decision amount of margin associated with both short and long-term revenue
- The unregulated storage business will include shared costs necessary to operate the business, but will also reflect the fact that the unregulated storage business functions as a part of the larger Union operations, and is able to leverage from this existing infrastructure
- Rate payers will be kept in a net neutral position and rate payers will not accrue any benefit or cost as a result of deregulation
- The shareholders should not subsidize the regulated operations, nor should the rate payers subsidize the unregulated storage operations
- The costs in terms of time and effort and benefits in terms of increased accuracy need to be considered prior to undertaking the assignment of assets and costs for any particular category (consider materiality).

The definition of storage from an accounting and reporting perspective was identified for both property, plant and equipment (PP&E), as well as operations and maintenance (O&M). As Figure 1 highlights, for both assets and costs it is important that both storage definitions for PP&E and costs include activities that benefit storage operations.

Figure 1



PP&E Storage Definition

Existing assets:

- Start with the current accounting definition of storage, which uses the concept of "inside the fence"
- There are some assets included in the current accounting definition of storage that are actually shared between storage and transmission, but there are no assets currently defined as transmission that relate to storage
- Unregulated storage operations will include a portion of general plant costs (vehicles, software & hardware, furniture etc.)

New assets:

- Net new storage assets are considered to be 100% unregulated unless there is a compelling reason to include a portion as regulated
- For upgrades or replacements, the classification of the asset will be based on the objective of the project
  - If the project is a necessary part of normal business operations, then the new asset should be split in the same way as the existing asset.
  - If the goal of the project is to improve efficiency or provide growth opportunities for the unregulated storage business, then the portion assigned to the rate payers should be equal to the value assigned to the rate payer before the asset was replaced or upgraded. The regulated rate base would remain unchanged, while the unregulated asset base would increase.

O&M Storage Definition

Existing O&M costs

- Activities drive the assignment of O&M costs to storage operations. The classification of the costs will be based on the purpose of the expenditures, and the asset that the expenditure relates to.
  - Since the majority of O&M costs relate to the operation and maintenance of existing assets, the costs should be assigned based on the underlying asset that the expenditure supported (ex. Costs related to the operation and maintenance of storage pools would be assigned entirely to storage, while costs related to the operation and maintenance of compressors would be partially assigned to storage in roughly the same percentage as the assets themselves)
  - For costs where there is no direct causal link to an asset, the activities need to be assessed to determine whether or not they benefit storage, transmission, or both. (ex General Operations costs benefit the entire organization, so they would be partially assigned to storage)

New O&M Costs

  - If the storage expenditure is a necessary part of normal business operations, then the costs should be split between regulated and unregulated storage
  - If the purpose of the storage expenditure is to improve efficiency or provide growth opportunities for the unregulated storage business, then the costs should be assigned 100% to the unregulated operations

3: Revenue and Cost of Gas

Total Unregulated Revenue:

To be consistent with the NGEIR decision, total revenue related to both short and long term unregulated storage is equal to:

100% Storage Revenue LESS a Rate Payer portion of Storage Margin = Unregulated Storage Revenue

Both the total storage revenue numbers for both short and long term rate payer portion, ("In-franchise customer premium sharing" and "Premium sharing through deferrals") are numbers regularly calculated by the Revenue Group. Table 2 contains a summary of the presentation of Revenue.

See Section titled "Dehy Impact" for explanation of "Adjustment for Tecumseh Dehydration" line in Table 2.

Table 2 - File: Unreg.Income.Statement.Final.xls

	2007 Board Approved	2007 Actuals	2008 Outlook	Q1 2008 Actuals	
Revenue					
Peak Short Term Storage	17,961	24,261	16,452	3,275	- 100% Storage revenue
Less: In-franchise customer premium sharing - built into rates	(14,246)	(14,246)	(11,254)		- Deferred margin
Less: Premium sharing through deferrals	-	(1,350)	-	336	
Total Unregulated short-term revenue	**3,715**	**8,665**	**5,198**	**3,611**	
Long Term Storage	42,058	65,001	84,392	19,539	- 100% Storage revenue
Less: In-franchise customer premium sharing - built into rates	(19,264)	(19,264)	(16,054)		- Deferred margin
Less: Premium sharing through deferrals	-	(2,196)	(1,610)	(310)	
Total Unregulated long-term revenue	**22,794**	**43,541**	**66,728**	**19,229**	
Adjustment for Tecumseh Dehydration	644	776	593	246	
Total Unregulated revenue	**27,153**	**52,982**	**72,518**	**23,086**	

Total Unregulated Cost of Gas:

The Total Cost of Gas for unregulated storage is simply equal to 100% of the calculated storage costs. The costs are considered to be at 100% as the related rate payer deferral calculation included in revenue is based on margins. The Cost of Gas consists of UFG, Compressor Fuel less Customer Supplied Fuel. Table 3 contains the calculated result for Cost of Gas, completed by the Revenue Group.

Table 3 - Unreg.Income.Statement.Final.xls

	2007 Board Approved	2007 Actuals	2008 Outlook	Q1 2008 Actuals	
Cost of Gas					
Short term UFG	(803)	(3,876)	(1,185)	(362)	- 100% short term costs
Short term Compressor fuel	(656)	(2,350)	(610)	(187)	
Short term Customer Supplied					
Total short-term storage/balancing costs	**(1,459)**	**(6,226)**	**(1,795)**	**(549)**	
Long term UFG	(4,125)	(4,833)	(8,486)	(1,879)	- 100% long term costs
Long term Compressor fuel	(3,400)	(2,930)	(4,372)	(970)	
Long term Customer Supplied	7,614	5,946	11,692	1,858	
Long term 3rd P Storage	(179)	(179)	(179)	(45)	
Total long-term storage/balancing costs	**(90)**	**(1,996)**	**(1,345)**	**(1,036)**	
Total Cost of Gas Storage	**(1,549)**	**(8,222)**	**(3,140)**	**(1,585)**	

Calculation of Long and Short-Term UFG:

Long and short-term UFG is calculated in the following manner:

2007 Actual UFG

2007 actual UFG cost was calculated by multiplying the "UFG Volume" by the "Actual WACOG" factor.
Note: UFG Volume = Actual 2007 Injection & Withdrawal volumes * UFG Factor 2007 Actual

Q1 2008 Actuals UFG

Q1 2008 actual UFG cost was calculated by multiplying the "UFG Volume" by the "Jan 1, 2008 QRAM WACOG" factor.
Note: UFG Volume = Actual Q1 2008 Injection & Withdrawal volumes * UFG Factor 2008 Forecast

2008 Budget UFG

The 2008 budget UFG cost was calculated by the Regulatory Group using the Cost Study and provided to the Revenue Group.

Calculation of Long and Short-term Compressor Fuel:

Long and short-term compressor fuel was calculated in the following manner:

2007 Actual Compressor Fuel

The 2007 actual compressor fuel was calculated by the Regulatory Group using the Cost Study and provided to the Revenue Group.

Q1 2008 Actuals Compressor Fuel

Q1 2008 actual compressor fuel was calculated by multiplying the "Compressor Fuel Volume" by the "Jan 1, 2008 QRAM WACOG" factor
Note: Compressor Fuel Volume = Actual Q1 2008 Injection & Withdrawal volumes * Fuel Ratio 2008 Forecast

2008 Budget Compressor Fuel

The 2008 budget compressor fuel was calculated by the Regulatory Group using the Cost Study and provided to the Revenue Group.

UFG and Compressor Fuel Summary:

The following is a summary of the factors and results that were required for UFG costs and Compressor Fuel:

Table 4

	2007 actual	Q1 2008 actual	2008 Budget
UFG cost	Actual injection & withdrawal volumes UFG Factor 2007 Actual Actual WACOG factor	Actual injection & withdrawal volumes UFG Factor 2008 Forecast Jan 1, 2008 QRAM WACOG Factor	Provided by Regulatory group
Compressor fuel	Provided by Regulatory group	Actual injection & withdrawal volumes Fuel Ratio 2008 Forecast Jan 1, 2008 QRAM WACOG Factor	Provided by Regulatory group

Calculation of Long and Short-term Customer Supplied Fuel:

The long and short-term customer supplied fuel was obtained directly from a G/L account in SAP.

Long-term Third Party Storage:

The long-term third party storage for the years 2007 and 2008 is based on the Board Approved balance.

Go Forward Process

Unlike other areas, the changes discussed in Revenue relate more to presentation of both Revenue and Cost of Gas, rather then process and accounting changes. To ensure that the Revenue Group can continue to report its Revenue and Cost of Gas correctly, it should ensure that it obtains updated actual factors, forecast factors and results from the Regulatory Group for Cost of Gas (UFG and Compressor Fuel). Lastly to ensure actuals costs are assigned correctly, the Revenue group should ensure that a true up of actual UFG and Compressor Fuel costs based on actual factors is completed on a regular basis.

Files for reference:

- Reg vs Unreg COG items Final Draft (2007 Actuals).xls
- Regulated vs Unregulated COG items – 2008 First Qtr.xls
- Unreg.Income.Statement.Final.xls

4: Property, Plant & Equipment (PP&E)

Identifying unregulated PP&E involved reviewing and analyzing two Union asset categories, including Underground Storage and General Plant.

Underground Storage

The following steps were taken to determine unregulated storage PP&E

- Calculate the reserve to underground storage assets
- Asset classification
- Application of allocation factors to calculate the unregulated storage results
- Determine the Negative Salvage associated with unregulated storage assets

In addition to the steps above, depreciation rates also needed to be changed to allow for the proper treatment of unregulated assets under Canadian GAAP. For unregulated storage assets this change reflected the removal of a salvage component within the specific asset class depreciation rates. The table below is a comparison of the new depreciation rates to the old rates. Salvage rates were sourced from the 2003 Depreciation Study (OEB approved) prepared for Union by Foster Associates, Inc.

Table 5 - File: Union Gas Underground Storage NBV 2006 & 2007.FINAL.DEHY ADJ.xls

Asset Class #	Asset Class	Existing Depreciation Rate	SV Rate	New Depreciation Rate
45100	Land Rights	2.23%		2.23%
45200	Structures and Improvements	2.34%	5.00%	2.22%
45300	Storage Wells	2.66%	20.00%	2.13%
45500	Field Lines	2.66%	20.00%	2.13%
45600	Compressor Equipment	3.19%	10.00%	2.87%
45700	Measuring and Regulating Equipment	4.30%	10.00%	3.87%

Calculate the Reserve to Underground Storage Assets

To complete this exercise, reserve data (accumulated depreciation) by underground storage asset class and vintage year (year of addition) was obtained from Foster & Associates. The reserve amounts were applied to individual assets based on underground storage book values as at (December 2005). As an example, the vintage year 1986 for Compressor Equipment has a reserve balance of $5,597,273 associated with it. The split of the reserve is highlighted in the table below.

Table 6 - File: Union Gas Underground Storage NBV 2006 & 2007.FINAL.DEHY ADJ.xls

Asset #	Description	Plant	Sub-Class	Quantity	Clos. Bal.(System)	BV by Yr Wieght	Investment Reserve Dec 2005	Net Salvage Reserve Dec 2005	Total Reserve
456009300035-150	DAWN PLANT D - DEHY TRAF LINE	X189	Dehy Equipment	2	9,368,554	98.72%	5,019,729	505,979	5,525,708
456003900043-82	OIL CITY COMPRESSOR - CASE	X139	Case	1	78,672	0.83%	42,153	4,249	46,402
456003900043-150	OIL CITY COMPRESSOR - DEHYDRATION	X139	Dehy Equipment	1	13,170	0.14%	7,056	711	7,768
456003900043-615	OIL CITY COMPRESSOR	X139	Piping and other	1	29,494	0.31%	15,803	1,593	17,396

Based on discussions with the Plant Accounting group and to ensure that the reserve figures calculated were consistent and supportable, when necessary the reserve amount was adjusted for those assets with an age beyond the asset class' average useful life so that the net book values of those assets was zero (0).

Classification of Assets and Application of Allocation factors

To determine the appropriate unregulated allocator to apply to an underground storage asset, individual book records of assets were classified according to the functional categories described in Table 7. The asset classifications are either:

Table 7 - File: Union Gas Underground Storage NBV 2006 & 2007.FINAL.DEHY ADJ.xls

Asset Classification	Asset Classification	Factor (A x B)
Storage	S	37.7%
Storage & Transmission	ST	19.9%
Storage & Transmission - Measuring & Regulating	ST-M&R	9.9%
Non-Storage	NS	0.0%
DEHY	D	22.2%
Unregulated Storage	UNR-ST	100.0%

- Storage – the asset is used entirely to support storage operations
- Storage & Transmission – the assets is used to support both storage and transmission operations
- Storage & Transmission – the asset is used to support the measuring and regulating activities of both storage and transmission
- Non-Storage – the asset may be included in underground storage, but it is does not support storage operations
- DEHY – the asset is used for dehydration services for both storage and transmission
- Unregulated storage – the asset exists to only support the unregulated storage business

Based on this classification, the appropriate unregulated allocator (2007 Cost Study based) was applied to the individual asset allowing the calculation of the unregulated assets Gross Book Value, Investment Reserve and Salvage to be calculated at the individual asset level. The allocation process is discussed in detail in Section 9: Allocations of this documentation.

Unregulated Storage Result

Table 8 summarizes the totals by asset class for unregulated storage assets. Since the allocation factors were applied at the individual asset level, the total unregulated storage allocation factor by class is equal to that class' total unregulated storage divided by the total underground storage.

Table 8 - File: Union Gas Underground Storage NBV 2006 & 2007.FINAL.DEHY ADJ.xls

Direct Allocation	Total Underground Storage			Unregulated Storage			
Asset Class	2007 GBV Storage	2007 Reserve Storage	2007 NBV Storage	2007 GBV Unreg Storage	2007 Reserve Unreg*	2007 NBV Unreg	GBV Allocation Factor
Land	5,045,414	-	5,045,414	1,233,564	-	1,233,564	24.45%
Land Rights	51,302,686	13,060,216	38,242,470	19,321,497	4,918,708	14,402,789	37.66%
Structures and Improvements	63,240,242	24,168,562	39,071,680	11,567,074	4,420,648	7,146,426	18.29%
Storage Wells	69,847,388	26,382,584	43,464,805	26,305,759	9,936,146	16,369,612	37.66%
Field Lines	67,839,695	21,128,762	46,710,932	25,549,626	7,957,465	17,592,161	37.66%
Compressor Equipment	279,575,141	127,733,303	151,841,839	59,158,686	25,702,073	33,456,613	21.16%
Measuring and Regulating Equipmer	60,913,189	36,658,994	24,254,195	13,515,984	7,615,944	5,900,040	22.19%
Base Pressure Gas	48,685,449	-	48,685,449	18,335,799	-	18,335,799	37.66%
	646,449,204	**249,132,420**	**397,316,783**	**174,987,987**	**60,550,983**	**114,437,004**	

Unregulated Underground Storage Depreciation

The calculated 2007 actual unregulated underground storage depreciation can be found in the Union Gas Underground Storage NBV 2006 & 2007.FINAL.DEHY ADJ.xls asset file. The unregulated 2007 depreciation expense was calculated in the same manner as the asset, and is equal to the calculated depreciation for a underground storage asset (investment & salvage) multiplied by the unregulated allocation factor for that specific asset. The total calculated 2007 actual depreciation by asset class for unregulated storage assets is contained in Table 9.

Table 9 - File: Union Gas Underground Storage NBV 2006 & 2007.FINAL.DEHY ADJ.xls

Asset Class	2007 Total Depreciation Expense (IR & SV)
Land	-
Land Rights	430,831
Structures and Improvements	266,243
Storage Wells	697,243
Field Lines	678,713
Compressor Equipment	1,822,170
Measuring and Regulating Equipmer	579,916
Base Pressure Gas	-
	4,475,117

The 2008 outlook for unregulated storage depreciation expense was done at a high level due the level of detail available regarding estimated new additions for 2008. The 2008 outlook calculation was as follows:

- Existing asset deprecation (no disposals) - Total Dec 31, 2007 asset class multiplied by that classes depreciation rate (adjusted to exclude that classes salvage rate)

PLUS

- Total New addition deprecation – Total New additions for 2008 multiplied by the total unregulated storage weighted average depreciation rate

Table 10 contains the calculated result for the 2008 outlook for unregulated depreciation.

Table 10 – Unreg Amortization estimate 2008 Final.xls

Asset Class	2007 GBV Unreg Storage	Amortization Rate on existing base	Estimated Deprecation on Base	Wieghted Avg Amortization rate	Total Additions	Estimate Amortization on Additions	2008 Amortization Estimate
Land	1,233,564	-	-				
Land Rights	19,321,497	2.23%	430,869	0			
Structures and Improvements	11,567,074	2.22%	257,136	0			
Storage Wells	26,305,759	2.13%	559,787	0			
Field Lines	25,549,626	2.13%	543,696	0			
Compressor Equipment	59,158,686	2.87%	1,698,446	0			
Measuring and Regulating Equipment	13,515,984	3.87%	523,069	0			
Base Pressure Gas	18,335,799	-	-				
	174,987,987		**4,013,002**	**2.58%**	**94,190,907**	**1,216,033**	**5,229,035**

Negative salvage on unregulated storage assets

The regulated group asset includes a net salvage component in their depreciation rate. Under Canadian GAAP the net salvage component would not be permitted for the unregulated storage assets. As a result, the depreciation expense related to the net salvage component of the deprecation rate for unregulated storage assets was treated as a gain in 2007. The gain which should have been recognized was calculated to be $6,146K. Union booked $4,700K of the gain in 2007 and therefore, the remaining $1,446K should be recognized in 2008.

Table 11 File: Union Gas Underground Storage NBV 2006 & 2007.FINAL.DEHY ADJ.xls

Asset Class	2007 Net SV Unreg	2007 Actual Booked Net SV Unreg
Land	-	-
Land Rights	-	-
Structures and Improvements	197,447	150,993
Storage Wells	1,532,702	1,172,094
Field Lines	1,244,519	951,713
Compressor Equipment	2,390,068	1,827,741
Measuring and Regulating Equipment	781,275	597,459
Base Pressure Gas	-	-
	6,146,011	**4,700,000**

Creation of the New Asset in SAP

- Refer to "Concept Document for Non-Regulated Storage Assets in SAP". The Concept Document provides Union with conceptual and functional specifications on the steps required to separately identify and report for its non-regulated storage property, plant and equipment as required by Canadian GAAP.

Files for Reference:

- Union Gas Underground Storage NBV 2006 & 2007.FINAL.DEHY ADJ.xls
- Unreg Amortization estimate 2008 Final.xls

General Plant

Due the complexity of individually tracking general plant assets and that in general most general plant assets exist to support Union as a whole, Union had made the decision to treat general plant depreciation as a charge-out or allocation of costs to the unregulated storage operation.

The process to determine the amount of General Plant to allocate to unregulated storage operations is more straightforward. General Plant uses the following two different allocators

1. Average of Unregulated Storage as a percentage of Total Plant (excluding General Plant) and O&M unregulated support allocator

   This allocator is used for all General Plant, excluding Vehicles.

Table 12 - File: General Plant Allocator Dec 31, 2007.FINAL.xls

General Plant Allocator	
Total Plant (Dec 31, 2007 - excluding WIP, ARO, and General Plant)	5,198,765,878
Total Unregulated Storage (Dec 31, 2007 - excluding WIP, ARO and General Plant))	172,571,936
% Unregulated Storage to Total Plant	3.32%
O&M Storage Support Allocator (2007/2008)	2.52%
General Plant Allocation Factor	**2.92%**

2. Vechicles – This allocator is based on PH&H vehicle data as at December 31, 2007. The allocator is the % of storage vehicles (DAWN vehicles) out of total vehicles multiplied by the most recent unregulated allocator. The result is the unregulated vehicle allocator

   To calculate this allocator, the Plant group will need to work with PH&H data to determine the amount of vehicles out of total vehicles that relate to Dawn storage operations. Below is a summary of the 2007/2008 calculation.

Table 13 - File: General Plant Allocator Dec 31, 2007.FINAL.xls

Transportation and HWE Allocator	
Total Value of Transportation and HWE per PH&H	48,839,315
Total Related to Dawn (ie Storage)	5,829,466
Storage Allocator for Transportation & HWE (A)	11.9%
50/50 Storage Space (Storage Excess 35.14%) & Design Day Demand (Netfromstor 40.18%)	37.7%
Unregulated Storage (Storage Allocator x 50/50 Unregulated Allocator)	**4.5%**

General Plant Depreciation Allocation/Chargeback

The amount allocated to unregulated underground storage for general plant depreciation is simply the general plant category multiplied by the general plant rate. For 2007 actuals, this was based on actual 2007 general plant results. For the 2008 Outlook, the 2007 balance was rolled forward and depreciation was calculated based on the estimated new additions made to general plant asset category. Table 14 contains a summary of the 2007 & 2008 general plant allocation to unregulated storage operations.

Table 14 - File: General Plant Depreciation Final.xls

2007 General Plant allocation		2008 General Plant Depreciation allocation	
Total General Plant Depreciation (2007 actual)	24,222,244	Estimated General Plant Depreciation (2008)	28,438,000
General Plant Allocator	2.92%	General Plant Allocator	2.92%
Allocation to Unregulated Storage	707,290	Allocation to Unregulated Storage	830,390
Transportation Depreciation (2007)	4,889,025	Estimated Transportation Depreciation (2008)	5,223,554
Allocator	4.50%	Allocator	4.50%
Allocation to Unregulated Storage	220,006	Allocation to Unregulated Storage	235,060
HWE (2007)	678,007	Estimated HWE Depreciation (2008)	650,446
Allocator	4.50%	Allocator	4.50%
Allocation to Unregulated Storage	30,510	Allocation to Unregulated Storage	29,270
Total 2007 Allocation to Unregulated Storage	**957,806**	**Total 2008 Allocation to Unregulated Storage**	**1,094,720**

Files for Reference:

- General Plant Allocator Dec 31, 2007.FINAL.xls
- General Plant Depreciation Final.xls

Go Forward PP&E

Since the historical asset split was a one time exercise the on-going maintenance related to the PP&E category should focus on ensuring that new capital assets are correctly categorized as described in Table 15. Based on this classification, an appropriate allocation factor will be assigned, if required. This allocation process is discussed in the Allocation section of this documentation.

By having the PP&E detail imbedded in SAP, it will ensure that the accounting for unregulated storage operations is effectively completed.

Table 15 - File: Union Gas Underground Storage NBV 2006 & 2007.FINAL.DEHY ADJ.xls

Asset Classification	Asset Classification
Storage	S
Storage & Transmission	ST
Storage & Transmission - Measuring & Regulating	ST-M&R
Non-Storage	NS
DEHY	D
Unregulated Storage	UNR-ST

5: Net Operations and Maintenance Expenses

Determining the amount of Unregulated Net O&M to assign to Unregulated Storage involved the following steps:

- Reviewing existing Internal orders and classifying them according to their function
- Applying appropriate Net O&M unregulated allocation factors
- Changing internal order settlement rules within SAP

Internal Order Classification:

All internal orders with balances in the year 2006 and onwards were obtained from the O&M group, also the settlement rules for the internal orders was obtained from an SAP report. The following information for each internal order was populated into an O&M Excel Model (File name 'O&M Mapping'):

- o Internal order # and name
- o OEB classifcation
- o Cost centres, WBS elements & G/Ls which the internal order settles to
- o Cost centre and WBS settlement percentages

With the assistance of the O&M group and respective Budget Co-ordinators, each internal order was classified into one of the following categories as described in Table 16:

Table 16

O&M Classification	Description
Storage General	Internal order is primarily related to storage operations.
Storage Unregulated	Internal order is primarily related to unregulated storage operations.
Storage Regulated	Internal order is primarily related to regulated storage operations.
Storage Shared	Internal order is used for both storage and transmission operations.
Storage Support	Internal order supports storage operations along with other operations.
Non Storage	Internal order is not related to storage operations

Based on the rationale that the majority of O&M costs relate to the operation and maintenance of existing assets, the costs should be assigned based on the underlying asset that the expenditure supported. Therefore, within the categories of Storage General and Storage Shared, Table 17 highlights the following further sub-classifications that were required, that are closely aligned with the Cost Study classification:

Table 17

O&M sub-classification
Supervision
Wells
Lines
Compressor
Measuring and Regulating
Dehydration
Rents
Other

Validation of Internal Order Classification:

Internal order assignments were compared to the Cost Study in order to ensure consistency. In addition, the Engineers from the Operations Department were involved when assigning internal orders within the Storage Transmission Operations (STO) department. This was to ensure internal orders were being accurately allocated between Storage and Transmissions.

Allocation to Unregulated Storage:

An allocation factor (for unregulated storage) was assigned to each category and sub-category. See the Allocations Section for explanation of allocations used for each category. Table 18 outlines the allocation factors used for each O&M classification.

Table 18 - File: O&M Mapping.xls

O&M Classification	Category	Allocation %
Storage General - Supervision	Storage	38.27%
Storage General - Wells	Storage	37.66%
Storage General - Lines	Storage	37.66%
Storage General - Compressors	Storage	39.42%
Storage General - Measuring & Regulating	Storage	37.66%
Storage General - Dehydration	Storage	24.76%
Storage General - Rents	Storage	38.27%
Storage General - Other	Storage	38.27%
Storage Shared - Supervision	Storage	9.78%
Storage Shared - Wells	Storage	37.66%
Storage Shared - Lines	Storage	37.66%
Storage Shared - Compressors	Storage	20.39%
Storage Shared - Measuring & Regulating	Storage	22.19%
Storage Shared - Dehydration	Storage	24.76%
Storage Shared - Rents	Storage	9.78%
Storage Shared - Other	Storage	9.78%
Storage Support	Storage Support	2.52%
Unregulated Storage	Storage	100.00%
Regulated Storage	Storage	0.00%
Non-Storage	Non-Storage	0.00%

Settlement rule changes:

For each internal order with an unregulated storage allocation, net O&M settlement rules were updated as follows in the Excel O&M Model:

- A new unregulated net O&M cost centre was created.
- The new unregulated net O&M cost centre created had the same number as the existing O&M cost centre but with a "U-" in front.

Table 19 contains an example of the change in settlement rule required for an internal order classified as Storage General – Compressors: O&M Unreg Allocator 39.42%

Table 19

	Unreg O&M Settlement Cost Centre U-20280	Reg O&M Settlement Cost Centre 20280	OH Settlement Cost Centre 21001
Existing Rule	0%	80%	20%
Revised Rule	80% * 39.42% = 32%	80% - 32% = 48%	20%

All new cost centres and settlement rules were uploaded into SAP in March 2008 and validated.

2008 Net O&M Budget with Unregulated Storage:

A new version was created in SAP in order to have a budget that contained unregulated storage net O&M balances. Version 36 Plan was used for this purpose. Plan rules from Version 0 were copied into Version 36. The rules were than updated to include the unregulated settlement rules. This resulted in approximately $8.5M unregulated net O&M expenses. Plan Version 36 can be used on a go forward basis to view the 2008 budget with unregulated storage costs. Table 20 outlines the Unregulated Net O&M 2008 Budget balances by department/function.

Table 20 - File: Unregulated Storage O&M File (2008 Budget) Final.xls

2008 Budget - Unregulated Storage Net O&M

Department/Function	Unregulated Storage	Storage Support Allocator	Other Allocators
Distribution Operations	-	-	-
Operations Techical Support	93,219	93,219	-
EH&S Operations	53,898	53,898	-
Storage Transmission Ops	2,562,209	3,000	2,559,209
Operations Support	141,752	56,582	85,170
Corporate Services	235,892	226,454	9,438
VP Operations	9,452	9,452	-
Engineering Operations	-	-	-
Subtotal Operations Net Unreg Storage O&M	**3,096,422**	**442,605**	**2,653,817**
Executive	63,043	63,043	-
Regulatory	1,137,798	278,094	859,704
BDCA	957,862	365,577	592,285
DGM	-	-	-
Capacity Management	736,906	34,923	701,983
Budget Control	-	-	-
IT	182,370	182,370	-
ITI	292,308	292,308	-
IM	22,896	22,896	-
Finance	103,820	103,820	-
Insurance	262,716	262,716	-
HR	1,405,624	1,405,624	-
Legal	31,107	31,107	-
Government Relations	8,149	8,149	-
Public Affairs	16,191	16,191	-
Tax	11,065	11,065	-
Strategic Development	3,402	3,402	-
Systems Planning	-	-	-
EHS	14,016	14,016	-
Procurement	14,765	14,765	-
Global Services	3,929	3,929	-
Tech Support	11,539	11,539	-
Audit	14,400	14,400	-
Affiliates	184,934	176,277	8,657
Total Net Unreg Storage O&M	**8,575,262**	**3,758,816**	**4,816,446**

January and February Journal Entry:

The new unregulated storage O&M rules were uploaded in March 2008 into SAP. As a result, a journal entry was required to allocate the unregulated O&M expenses in January and

February 2008. In order to determine the expenses by cost element type, version 37 Plan in SAP was used and the following steps were followed:

- February YTD data was copied into version 37
- Unregulated settlement rules (from version 36) were copied into version 37
- Once settlements were run, each unregulated cost centre was analyzed to determine the balance by cost element type.
- A journal entry (based on version 37 results) was booked to correct January and February results to allocated unregulated O&M expenses.

Note: In copying the February YTD data into version 37, some data was copied incorrectly due to issues with translation currency. This resulted in a variance of $15K (over-statement) to the unregulated storage O&M expenses. The O&M group concluded that this variance was not significant.

Posting to Primary Cost Centre Elements:

When postings are made to the primary cost centre elements directly, an amount should be allocated to the unregulated cost centre when appropriate. An allocation was calculated and a journal entry posted for January, February and March 2008. The allocation to unregulated storage operations was calculated in the following manner:

- Determined percentage of unregulated expenses (i.e. U-20120) divided by total regulated and unregulated expenses to the cost centres (i.e. 20120 & U-20120)
- Percentage calculated was applied to the balance of the posting to the primary cost centre element.
- Journal entry was made (by cost centre and cost element) to allocate the unregulated portion of the posting to the primary cost centre element.

March YTD Results:

Once settlement rules had been uploaded in SAP for March 2008 and the January and February journal entry had been posted, March YTD unregulated results were available in SAP. There was no significant variance in spending versus budget, with Net O&M unregulated storage March YTD actuals at $3.1M versus a budget of $2.9M.

Go Forward Process:

This Excel model should be used on a go forward basis as new internal orders are created and rules for existing internal orders are changed, in order to calculate the unregulated settlement rule. The file can be used as an audit trail for the unregulated settlement rules setup in SAP.

The worksheet labelled 'Go-Forward' should be used for all new internal order and changes to existing internal orders.

1) New internal order:

When a new internal order is created, the following steps should be followed:

- The internal order request form received from the Budget Coordinator should include which unregulated storage O&M classification (i.e. storage general, storage support etc.) should be used for the internal order.

- The O&M group can then add the internal order to the Excel O&M Model ('Go-Forward') worksheet.
- The following pieces of information will be required:

    - Internal order #
    - Cost centre #'s (Reg OM, OH & DCC)
    - Settlement rules (Reg OM, OH & DCC, WBS & GL Account)
    - O&M classification (with respect to storage) provided by Budget Coordinator

- Based on the O&M classification, the Excel Model will calculate the revised settlement rules, including a settlement to the unregulated cost centre if applicable (in the section called 'Revised Settlement Rules')
- The Unregulated Cost Centre required will also be displayed.
- The settlement rules can then be uploaded into SAP.

Note that since this a "live' document, the number of users of the document should be limited and the formulas within the document should be regularly checked to ensure that the settlement results are calculated correctly.

2) Change to Settlement Rule (existing internal order):

When there is a change to an existing settlement (i.e. change in percentages being allocated to Net O&M versus Overhead) and there is an existing net unregulated O&M settlement, the following steps should be followed:

- The new settlement rules should be calculated.
- For example:

Table 21

	Reg O&M Settlement	Unreg O&M Settlement	OH Settlement
Existing Rule	61%	39%	0%
Revised Rule	61% * 90% = 55%	39% * 90% = 35%	10%

- The new rule should be inputted into the Excel Model ('Go-Forward' worksheet) in the section called 'New Rule (Manual Changes)'.
- The Excel Model will calculate the revised settlement rule in the section called 'Revised Settlement Rules'.
- The settlement rules can then be uploaded into SAP.

3) Change to Allocation Factors:

Current allocation factors are based on December 31, 2007 PP&E balances. Allocation factors will need to be updated based on the December 31, 2008 PP&E balances, which will occur at the beginning of the 2009 fiscal year. Please see the 'Allocations' section of this document for the process in collecting and calculating the updated allocation factors to be used for the different O&M classifications.

Once the updated allocation factors have been obtained and calculated, the following steps should be followed:

- The updated allocation factors should be inputted into the following chart in the 'Go-forward' worksheet of the O&M Excel model.

Table 22 - File: O&M Mappling.xls

O&M Classification	Category	EXISTING Allocation %	REVISED Allocation %
Storage General - Supervision	Storage	38.27%	37.90%
Storage General – Wells	Storage	37.66%	37.66%
Storage General – Lines	Storage	37.66%	37.66%
Storage General - Compressors	Storage	39.42%	38.33%
Storage General - Measuring & Regulating	Storage	37.66%	37.66%
Storage General - Dehydration	Storage	24.76%	22.22%
Storage General – Rents	Storage	38.27%	37.90%
Storage General – Other	Storage	38.27%	37.90%
Storage Shared - Supervision	Storage	9.78%	9.78%
Storage Shared – Wells	Storage	37.66%	37.66%
Storage Shared – Lines	Storage	37.66%	37.66%
Storage Shared - Compressors	Storage	20.39%	21.16%
Storage Shared - Measuring & Regulating	Storage	22.19%	22.19%
Storage Shared - Dehydration	Storage	22.19%	22.22%
Storage Shared – Rents	Storage	9.78%	9.78%
Storage Shared – Other	Storage	9.78%	9.78%
Storage Support	Storage Support	2.52%	2.52%
Unregulated Storage	Storage	100.00%	100.00%
Regulated Storage	Storage	0.00%	0.00%
Non-Storage	Non-Storage	0.00%	0.00%

- Based on the revised allocation factors, the O&M Excel model will calculate the new settlement rules in the section titled 'Revised Settlement Rules'.
- All revised rules should be uploaded into SAP (Plan and/or Actuals when required).

4) Change in O&M classification

In rare circumstances, a budget coordinator may want to change the original O&M classification. For example, this would occur if the purpose of the internal order changes from Storage Support to Non-storage. In these situations, the following steps should be followed:

- The field 'O&M Classification' in the O&M Excel model ('Go-Forward' worksheet) should be modified (from the drop-down menu). As a result, a new O&M unregulated allocation factor will populate.
- Based on the revised allocation factor, the O&M Excel model will calculate the new settlement rule in the section titled 'Revised Settlement Rules'.
- The revised rule should be uploaded into SAP.

Files for reference:

- O&M Mapping.xls

- Unregulated Storage O&M File (2008 Budget) Final.xls

6: Property Tax

The 2007 storage property taxes by category were obtained from the Tax group. The PP&E unregulated storage factors were applied to the storage property taxes in order to determine the 2007 unregulated property tax by category. The unregulated property tax number for 2007 and 2008 is presented in Table 23 below.

Table 23 - File: Property Taxes 2007-2008.xls

Property Tax Category	Total 2007 Property Tax	2007 Storage Property Taxes	Unreg Allocator %	2007 Unregulated Property Tax	Est. Total 2008 Property Tax	Est. 2008 Storage Property Tax	Unreg Allocator %	Est. 2008 Unregulated Property Tax
Mains	42,374,214	835,046	37.7%	314,493	43,996,416	850,601	37.7%	320,351
Services	9,452,825			-	9,628,903	-		-
Wells	131,719	129,903	37.7%	48,924	154,240	152,390	37.7%	57,393
Land	2,217,784	46,027	24.4%	11,253	2,259,095	46,884	24.4%	11,463
Structures & Improvement	1,662,179	267,281	17.9%	47,818	1,743,140	272,260	17.9%	48,709
Compressors	2,380,023	1,467,032	20.4%	299,077	2,710,165	1,542,934	20.4%	314,551
Other	49,059			-	49,973	-		-
Total Plant applicable to Property Tax	**58,267,804**	**2,745,289**		**721,565**	**60,541,932**	**2,865,068**		**752,466**

2008 property taxes were estimated by adding the 2008 projects and 2008 “other property taxes” ($1,085,355 - which had not been classified by category) to the 2007 property taxes. The “other property taxes” were allocated to the categories based on the 2007 split.

From this point, the 2008 storage property taxes were estimated by adding the “2008 Project Storage property taxes” and the “2008 Storage Proportional Split”. The “2008 Storage Proportional Split” was calculated by applying the 2007 percentage (2007 storage property tax divided by 2007 total property taxes by category) to the total 2008 property taxes by category.

The “2008 Project Storage property taxes” are the project property taxes which are related to storage.

Table 24 - File: Rollforward to 2008.xls

	2007 Storage	2007	2008 Projects	2008 Proportional	2008 Revised Total	2008 Projects Storage	2008 Storage Proportional split	2008 Revised Storage
Mains	835,046	42,374,214	832,897	789,304.93	43,996,416		15,554	850,601
Services		9,452,825		176,077.87	9,628,903		0	0
Wells	129,903	131,719	20,067	2,453.54	154,240	20,067	2,420	152,390
Land	46,027	2,217,784		41,310.69	2,259,095		857	46,884
Buildings	267,281	1,662,179	50,000	30,961.42	1,743,140		4,979	272,260
Compressors	1,467,032	2,380,023	285,809	44,332.72	2,710,165	48,576	27,326	1,542,934
Other		49,059		913.83	49,973		0	0
	2,745,289	**58,267,804**	**1,188,772**	**1,085,355**	**60,541,932**	**68,643**	**51,137**	**2,865,068**

Go Forward Process:

- The unregulated property tax expense should be booked monthly based on plan.
- The actual property tax expense should be requested from the Property Tax group and a true-up for the unregulated property tax determined.

Files for Reference:

- Property Taxes 2007-2008.xls
- Rollforward 2008.xls

7: Other Income Statement Items

The following is a discussion on other income statement items such as interest on long-term debt and capital tax:

Interest on long-term debt:

Interest on long-term debt is based on the deemed debt structure for Union as a whole (regulated and unregulated). As a result, the interest on long-term debt attributable to the unregulated storage operations cannot be determined at this point in time.

Capital tax:

Since capital tax is in the process of being phased out over the next couple of years and as a result the overall number is decreasing year over year, a portion was not allocated to the unregulated operations

However, if Union would like to allocate capital tax to the unregulated storage operations, one possible approach is to use the General Plant Allocator (see PP&E section). This allocator takes the Unregulated Storage Assets and divides it by Total Plant (excluding WIP, ARO & general plant). The resulting allocator is 3.32%. Total capital tax for the year 2008 is budgeted at approximately $6 million. Using this approach, approximately $200k of capital tax would be allocated to the unregulated storage operations.

8: Overhead

The following is an analysis of unregulated storage overhead and is for informational purposes only. Union will not be using any of the three approaches described below as they are currently reviewing the overall overhead process, this will also include determining the amount of overhead to assign to the unregulated storage operations.

As stated in the KPMG's report on accounting for unregulated storage operations, Union Gas' existing capital overhead process includes…

> "particular items capitalized to overhead that may not comply with Canadian GAAP and IFRS."

This represented a distinct challenge during the review of the overhead process, specifically in developing an approach to determine the unregulated capital and expense portion of overhead given Union's current approach to allocating overhead.

High Level Overview of Current Process:

Union's current capital overhead process involves allocating costs that are deemed to be attributable to capital activity, but not easily tied to any specific capital project. These costs include an allocated portion of Union's operational, HR benefits, general and administrative, warehouse, depreciation and non-productive labour costs. For Budget 2008, Union's total capital overhead costs are $57.2M and Table 25 breaks the costs out by Union department or function. This amount has stayed relatively constant year over year and is supported by the overhead cost study submitted and approved by the Ontario Energy Board (OEB).

Table 25 - File: Unreg Storage Overhead (2008 budget) Approach 3 Final.xls

Department/Function	Total OH & DCC
Distribution Operations	7,351,129
Operations Techical Support	3,963,814
EH&S Operations	120,309
Storage Transmission Ops	685,835
Operations Support	5,034,891
Corporate Services	2,248,112
VP Operations	20,250
Engineering Operations	1,996,477
Subtotal Operations OH & DCC	**21,420,817**
Executive	378,260
Regulatory	1,221,588
BDCA	694,631
DGM	9,962,847
Capacity Management	497,235
Budget Control	1,150,833
IT	1,012,865
ITI	2,518,262
IM	-
Finance	493,146
Insurance	-
HR	15,385,314
Legal	28,963
Government Relations	-
Public Affairs	-
Tax	-
Strategic Development	272,160
Systems Planning	291,759
EHS	-
Procurement	514,458
Global Services	141,222
Tech Support	28,848
Audit	-
Affiliates	1,221,760
Total OH & DCC	**$ 57,234,967**

At a high level, Union's capital overhead process is a three step allocation process.

1) The first step takes a specific amount out of a designated internal order and settles that amount to an overhead cost centre.
2) The second step, involves running an assessment cycle which breaks the capital overhead costs into specific capital groups (capital WBS elements).
3) The third step is the allocation of the balances within the capital groups to specific capital assets on the basis of asset spending.

The first and second steps are completed on a monthly basis, while the allocation of capital to specific assets is completed at year end.

Approaches for Calculating the Unregulated Storage Overhead:

KPMG developed three alternative approaches to calculating the unregulated storage capital (capex) and expense amount from Union's current 2008 overhead costs.

Approach 1

Approach 1 uses the existing overhead settlements and assessments rules, split out allowable and non-allowable costs and allocate to individual assets or expense based on capital spending. This results in total unregulated storage overhead costs of $8.8M (excluding IT overhead as it is directly assigned only to IT projects) of which $6.9 is an expense and $2M can be charged to capital.

Allocations to unregulated assets or expense are based on two allocators:

- % of unregulated storage capital to total storage and transmission capital spending for amounts assessed to the "South (Union) GSO" WBS element
- % of unregulated storage capital to total capital for amounts assessed to the "South (Union) A&G" WBS element

Benefits

This approach represents the least amount of change to the capital overhead process, in that it follows Union's existing process for allocation, the only difference is that a portion of overhead costs, which are non-allowable capital costs under Canadian GAAP will now be an expense to the unregulated storage operation income statement.

Constraints

There are potential issues with this approach, the main one is that the existing assessment rules are not well documented and/or regularly updated, as a result costs that flow into the assigned capital groups (WBS groups) will be difficult to support and explain.

Also, since capital spending is used as the allocation factor, this will lead to fluctuations in the amount assigned to unregulated storage, and ultimately lead to expense variability. For example, the unregulated overhead cost will change only as a result of a change in the amount of unregulated capital spending, while the total overhead costs to Union will stay relatively flat. For consistency purposes with the existing overhead process, the logical allocation choice is capital spending, however the potential for expense variability immediately for the unregulated storage operations and in the future when considering the impact of IFRS to Union highlights the importance for Union to consider a review of the existing overhead process.

Approach 2

Approach 2 uses Net O&M internal order classification rules and a HR loading rate for benefit costs. The allowable and non-allowable costs are split and capital spending is used as the allocator to unregulated storage. The remaining amount that is non-storage, is allocated according to the existing assessment rules. The total overhead costs in this approach are $8.2M (excluding IT), of which $6.2M is an expense and $2M is the capital overheard portion.

Allocations to unregulated assets or expense are based on three allocators:

- % of unregulated storage capital to total storage capital spending for the overhead amounts of an internal order that is classified as storage
- % of unregulated storage capital to total capital spending for the overhead amounts of an internal order that is classified as storage support
- % of unregulated storage capital to total storage and transmission capital spending for the overhead amounts of an internal order that is classified as storage shared

Benefits

Unlike the first approach this approach attempts to ensure that mainly storage related internal orders and their related overhead costs are assigned to either an unregulated asset or expense. Also in using an HR benefit loading rate for benefit costs, the resulting benefit charge to unregulated overheads is more direct when compared to the current percentage estimate method.

Constraints

Similar to the first approach, since capital spending is the allocator, the same constraints will apply and under this approach there will be fluctuations in the amount assigned to unregulated storage, and ultimately lead to expense variability.

Approach 3

Approach 3, reviews OH applicable orders and determines the suitability of the existing capital OH settlement percentage. The overhead portion is allocated as either storage, transmission/distribution or general. Capital spending is the allocator and applicable overhead HR costs are calculated using a benefit loading factor. The total overhead costs in this approach are $7.3M (excluding IT), of which $5.6M is an expense and $1.6M is the capital overheard component.

Allocations to unregulated assets or expense are based on two allocators:

- % of unregulated storage capital to total storage capital spending for the % overhead amounts of an internal order that is classified as storage
- % of unregulated storage capital to total capital spending for the % overhead amounts of an internal order that is classified as other (i.e. Finance, Executive, etc)

Benefits

This approach is very similar to the second, however it is further refined in that Union’s operational budget coordinators have assigned an exact percentage of the overhead activity that relates to storage.

Constraints

Again, like the two other approaches, there will be fluctuations in unregulated expenses as actual capital spending changes against budgeted amounts during a year and as budget changes happen year over year. Despite this limitation this approach is the most reasonable when compared to the other approaches as it ensures that a supportable percentage of storage related overhead costs are allocated to unregulated storage operations.

Out of all three approaches, the third approach is the most supportable since there is direct assignment of a specific amount out of overhead applicable internal orders. Based on budget 2008, the total unregulated overhead costs are $7.3M, broken out as $5.6M as an unregulated expense and $1.6M as the allowable capitalizable portion. Regular true-ups to actual capital spending will be required as Union sees fit since this amount is based on budgeted capital spending for 2008.

The common limitation of all three approaches is a function of using capital spending as the allocator. However, this drawback not only applies to the process of identifying unregulated overhead costs, but also to the existing overhead process itself. For the interim, as it related to reporting for unregulated storage operation, it is recommended that Union adopt the third approach. This exercise highlighted the potential issues that Union will face when adopting IFRS accounting standards and as such it is advisable that Union review its overhead process as a whole within the near future.

Files for Reference:

- Unreg Storage Overhead (2008 budget) Approach 3 Final.xls

9: Allocations

The majority of Union's existing PP&E and O&M expenses cannot be directly assigned to unregulated storage. As a result of this, the calculation of appropriate allocation factors was a very important step for this project. This section provides an overview of the allocation factors for both PP&E and O&M and discusses the on-going maintenance of the allocation factors for unregulated storage.

PP&E allocation factors

Underground Storage Assets:

A two (2) step allocation approach was used to determine the individual asset value for unregulated storage PP&E. The first step was to determine the storage component, while the second step was to assign an unregulated allocator to the storage component, mathematically this is represented as:

Storage Factor x Unregulated Factor = Unregulated Storage Factor

As described in the PP&E section, individual storage assets were classified to one of the following categories: storage (S), storage & transmission (S&T), measuring and regulating (M&R) storage & transmission (M&R-ST), non-storage (NS), DEHY (D) or unregulated storage (UNR-ST). From this point the allocation factor used to determine the underground storage assets storage component was as follows:

- Storage – 100%
- Storage & Transmission – 52.7%, which is the Horsepower allocator (COMPRECL-PT) from the Union Gas Cost Study recalculated by the Regulatory Department based on a review of Union's current compressor usage.
- M&R Storage & Transmission – 26.4%, this is the M&RRECL-O&M/PT allocator from the Union Gas Cost Study. This allocator is derived from taking the total gas received and sent out from Dawn Storage to the total gas received and sent across Union's network excluding the gas sent and received via physical interconnects.
- Non-Storage – 0%
- DEHY – 22.2%, this is the DEHYDEMAND allocator from the Union Gas Cost Study (at 100 PJs)
- Unregulated Storage – 100%

The second step of the allocation process was to determine the unregulated portion of individual storage assets. Similar to the first allocation step, the unregulated storage allocator of 37.7% was derived at by taking the average of Netfromstor (40.18%) and Storage Excess (35.14%) from the Union Gas Cost Study C1 rate class allocators. Table 26 contains a break-down of the allocators for underground storage assets.

Table 26 - File: Union Gas Underground Storage NBV 2006 & 2007.FINAL.DEHY ADJ.xls

Asset Classification	Asset Classification	Storage Allocator	Factor (A)	Unregualted Allocator	Factor (B)	Factor (A x B)
Storage	S	Direct	100.0%	50/50 Storage Space (NETFROMSTOR 35.14%) & Design Day Demand (STORAGE EXCESS 40.18%)	37.7%	37.7%
Storage & Transmission	ST	Horsepower	52.7%	50/50 Storage Space (Storage Excess 35.14%) & Design Day Demand (Netfromstor 40.18%)	37.7%	19.9%
Storage & Transmission - Measuring & Regulating	ST-M&R	M&R Activity	26.4%	50/50 Storage Space (Storage Excess 35.14%) & Design Day Demand (Netfromstor 40.18%)	37.7%	9.9%
Non-Storage	NS	N/A	0.0%	N/A	0.0%	0.0%
DEHY	D	Direct	100.0%	DEHYDEMAND	22.2%	22.2%
Unregulated Storage	UNR-ST	100% Unreg	100.0%	100% Unreg	100.0%	100.0%

Based on the individual underground storage asset review, Table 27 contains the summary of the asset values by underground storage asset category at each stage of the PP&E allocation process:

Table 27 - File: Union Gas Underground Storage NBV 2006 & 2007.FINAL.DEHY ADJ.xls

Asset Class	Total Underground Storage			Storage Only			Unregulated Storage		
	2007 GBV Storage	2007 Reserve Storage	2007 NBV Storage	2007 GBV Storage	2007 Reserve Storage	2007 NBV Storage	2007 GBV Unreg Storage	2007 Reserve Unreg*	2007 NBV Unreg
Land	5,045,414	-	5,045,414	3,275,376	-	3,275,376	1,233,564	-	1,233,564
Land Rights	51,302,686	13,060,216	38,242,470	51,302,686	13,060,216	38,242,470	19,321,497	4,918,708	14,402,789
Structures and Improvements	63,240,242	24,168,562	39,071,680	30,841,012	11,913,043	18,927,970	11,567,074	4,420,648	7,146,426
Storage Wells	69,847,388	26,382,584	43,464,805	69,847,388	26,382,584	43,464,805	26,305,759	9,936,146	16,369,612
Field Lines	67,839,695	21,128,762	46,710,932	67,839,695	21,128,762	46,710,932	25,549,626	7,957,465	17,592,161
Compressor Equipment	279,575,141	127,733,303	151,841,839	154,337,834	70,176,225	84,161,609	59,158,686	25,702,073	33,456,613
Measuring and Regulating Equipment	60,913,189	36,658,994	24,254,195	35,887,814	20,221,952	15,665,862	13,515,984	7,615,944	5,900,040
Base Pressure Gas	48,685,449	-	48,685,449	48,685,449	-	48,685,449	18,335,799	-	18,335,799
	646,449,204	**249,132,420**	**397,316,783**	**462,017,253**	**162,882,781**	**299,134,472**	**174,987,987**	**60,550,983**	**114,437,004**

Files for reference:

- Union Gas Underground Storage NBV 2006 & 2007.FINAL.DEHY ADJ.xls

General Plant Allocations

O&M Expense Allocations:

Remember from the guiding principles section that……

> "Activities drive the assignment of O&M costs to storage operations. The classification of the costs will be based on the purpose of the expenditures, and the asset that the expenditure relates to.
>
> - Since the majority of O&M costs relate to the operation and maintenance of existing assets, the costs should be assigned based on the underlying asset that the expenditure supported (ex. Costs related to the operation and maintenance of storage pools would be assigned entirely to storage, while costs related to the operation and maintenance of compressors would be partially assigned to storage in roughly the same percentage as the assets themselves).
> - For costs where there is no direct causal link to an asset, the activities need to be assessed to determine whether or not they benefit storage, transmission, or both. (ex General Operations costs benefit the entire organization, so they would be partially assigned to storage)."

As discussed in the O&M section, all O&M internal orders were reviewed and classified and sub-categorized. From this point an allocation factor was applied to the internal order that was asset, cost study or spending based. Note to ensure consistency and comparability with the Union Gas Cost Study, the sub-categories are closely aligned with the cost study internal order assignments. Table 28 summarizes the allocation factors assigned to O&M internal order sub-categories.

Table 28 - File: O&M Allocators 2007 & 2008 Final.xls

O&M I/O Classification	O&M Sub-Category	Allocator Description	Allocation Factor	Allocation %
Storage General (internal orders are 100% storage)	Supervision	Asset based	Total weighted average allocator for unregulated storage	38.3%
	Wells	Asset based	Unregulated allocator for Wells	37.7%
	Lines	Asset based	Unregulated allocator for Lines	37.7%
	Compressors	Asset based	Unregulated allocator for Compressors	39.4%
	Measuring & Regulating	Asset based	Unregulated allocator for M&R	37.7%
	Dehydration	Cost Study based	2007 Cost Study DehyDemand	24.8%
	Rents	Asset based	Total weighted average allocator for unregulated storage	38.3%
	Other	Asset based	Total weighted average allocator for unregulated storage	38.3%
Storage Shared (internal orders relate both to storage & transmission)	Supervision	Cost Study based	2007 Cost Study C1 storage assets as a % of total storage & dawn-trafalger transmission assets	9.8%
	Wells	Asset based	Calculated unregulated storage allocator Wells	37.7%
	Lines	Asset based	Calculated unregulated storage allocator Lines	37.7%
	Compressors	Asset based	Calculated unregulated storage allocator Compressor	20.4%
	Measuring & Regulating	Asset based	Calculated unregulated storage allocator M&R	22.2%
	Dehydration	Cost Study based	2007 Cost Study DehyDemand	22.2%
	Rents	Cost Study based	2007 Cost Study C1 storage assets as a % of total storage & dawn-trafalger transmission assets	9.8%
	Other	Cost Study based	2007 Cost Study C1 storage assets as a % of total storage & dawn-trafalger transmission assets	9.8%
Storage Support	N/A	Spending based	Unregulated Storage O&M to Total Operational O&M (2008 Budget)	2.5%

Files for reference:

- O&M Mapping.xls
- O&M Allocators 2007 & 2008 Final.xls

Updates to Allocation Factors

To ensure that the unregulated storage operation maintains a fair share of PP&E and costs each year, it is important that Union regularly maintains and updates the above allocation factors. A change in allocation factors will influence:

- The split between regulated and unregulated for newly created shared underground storage PP&E
- The general plant depreciation expense charged to the unregulated storage operations P&L
- The unregulated Net O&M expense charged to the unregulated storage operation P&L

To minimize the time impact required by Finance, Operations and Regulatory to update the allocation factors, it is recommended that the update of the allocation factors be incorporated in the Union's yearly planning cycle.

The following steps are required to update the allocation factors:

1. **Plant Group and O&M group to obtain the updated allocators from Regulatory**
2. **Update the PP&E list for new additions**

3. **Apply new asset based allocators to Net O&M and determine the new unregulated internal order settlement rules to apply**
4. **Update the General Plant allocator**

Allocation Factors Required from Regulatory

Below is a list of allocators required by the Plant and O&M group.

Table 29 - File: Regulatory allocators.xls

Cost Study Allocators	Description	Factor	Provide To
STO O&M Split	2007 Cost Study C1 storage assets (adjusted for parkway) as a % of total storage & dawn-trafalger transmission assets	9.8%	O&M Group
DehyDemand	2007 Cost Study (not 100 PJs)	24.8%	O&M Group
HP Allocation	Horsepower Allocator adjusted	52.74%	Plant Group
M&RRECL-PT	2007 Cost Study (100 PJs)	26.4%	Plant Group
NETFROMSTOR	2007 Cost Study (100 PJs)	35.14%	Plant Group
STORAGEXCESS	2007 Cost Study (100 PJs)	40.18%	Plant Group

Note: Going forward the 100 PJ DehyDemand allocator should be used.

Update the PP&E List for New Additions

New PP&E additions to underground storage will lead to a change in the PP&E allocation factors used by the O&M group. To ensure the O&M group is able to update settlement rules accordingly, the Plant group will be required to provide the allocators to the O&M once they have been updated. Since the allocators are set for the 2008 year, the Plant group will need to provide the updated allocators to the O&M in between January and February 2009.

For 2009 additions, the Plant group will need to ensure that they use the updated allocation factors from Regulatory.

Table 30 contains a list of the PP&E allocation factors that the Plant Group will need to provide to the O&M Group.

Table 30 - File: PP&E Allocation Calculation.xls

PP&E Allocators to provide to O&M Allocator	O&M I/O Classification	O&M Sub-Category	2007/08 Allocator
Total Weighted Average Unregulated Factor	Storage General (internal orders are 100% storage)	Supervision	38.3%
Wells Unregulated Factor		Wells	37.7%
Lines Unregulated Factor		Lines	37.7%
Compressors Unregulated Factor		Compressors	39.4%
M&R Unregulated Factor		M&R	37.7%
Total Weighted Average Unregulated Factor		Rents	38.3%
Total Weighted Average Unregulated Factor		Other	38.3%
Wells Unreguated Storage Factor	Storage Shared (internal orders are split between storage & transmission)	Wells	37.7%
Lines Unregulate Storage Factor		Lines	37.7%
Compressors Unregulated Storage Factor		Compressors	20.4%
M&R Unregulated Storage Factor		M&R	22.2%

Apply New Asset Based Allocators to Net O&M and Determine the New Unregulated Internal Order Settlement Rules to Apply

The O&M group will be required to update allocation factors on a regular basis. Since the allocation factors have been set for 2008, the next time the O&M group will be required to update allocation factors is in January or February 2009. This updated allocation factors will be required for the 2010 Net O&M Budget and 2010 Net O&M Actuals.

As described in the O&M section the O&M will use the "O&M Mapping.xls" file to determine the changes required to settlement rules.

Update the General Plant Allocator

The Plant Group will be required to calculate two General Plant allocators are required to determine the amount of General Plant depreciation to charge to unregulated storage:

1. Average of Unregulated Storage as a percentage of Total Plant (excluding General Plant) and O&M unregulated support allocator

   To calculate this allocator the Plant Group will use the most recent PP&E continuity file and obtain the updated O&M unregulated support allocator from the O&M group.

2. Vechicles – Out of the most recent PH&H data, determine the % of storage vehicles out of total vehicles and apply the most recent unregulated allocator to that %. The result is the unregulated vehicle allocator

   To calculate this allocator, the Plant group will need to work with PH&H data to determine the amount of vehicles out of total vehicles that relate to Dawn storage operations.

Files for reference:

- Regulatory Allocators.xls
- PP&E Allocation Calculation.xls
- O&M Mapping.xls
- General Plant Allocator Dec 31, 2007.FINAL.xls

10: Dehy Impact

The 2007 PP&E files, classified $10.8M of dehy assets as non-storage (regulated). This was based on discussions with the Engineers in the Storage & Transmissions department.

However, since there is dehy revenue that is unregulated, it was decided that the assets should not be non-storage (regulated).

This change in classification would impact PP&E, O&M and Allocations.

Property, plant and equipment:

The DehyDemand allocator from the Cost Study is 22.2% (at 100 PJs). If this factor was applied to the $10.8M of dehy assets, it would increase the unregulated PP&E assets by $2.4M.

Note that the PP&E file used to load unregulated assets into SAP will be updated to reflect the allocation of the dehy assets to unregulated storage assets.

Allocation factors and O&M:

By allocating a portion of the dehy assets to unregulated storage and increasing the unregulated PP&E assets by $2.4M, there is an impact on the O&M allocation factors which are based on PP&E.

Changes were not made to the O&M settlement rules since the impact of making the change was not significant (approximately $50K).

The new allocation factors will be incorporated into the next settlement update.

Allocation factors and Property taxes:

By allocating a portion of the dehy assets to unregulated storage and increasing the unregulated PP&E assets by $2.4 M, there is an impact on the unregulated property tax expenses which are based on the PP&E unregulated storage allocation factors. However, the impact is approximately an increase of $13K to both the 2007 and 2008 unregulated property tax expense, which is not significant.

11: Income Statement for Unregulated Storage Operations

The following are the 2007 Actual and 2008 Outlook income statements for unregulated storage operations. The 2007 Board Approved income statement is also included for comparison purposes:

Table 31 - File: Unreg. Income Statement.Final.xls

	2007 Board Approved	2007 Actuals	2008 Outlook
Revenue			
Peak Short Term Storage	17,961	24,261	16,452
Less: In-franchise customer premium sharing - built into rates	(14,246)	(14,246)	(11,254)
Less: Premium sharing through deferrals	-	(1,350)	-
Total Unregulated short-term revenue	**3,715**	**8,665**	**5,198**
Long Term Storage	42,058	65,001	84,392
Less: In-franchise customer premium sharing - built into rates	(19,264)	(19,264)	(16,054)
Less: Premium sharing through deferrals	-	(2,196)	(1,610)
Total Unregulated long-term revenue	**22,794**	**43,541**	**66,728**
Adjustment for Tecumseh Dehydration	644	776	593
Total Unregulated revenue	**27,153**	**52,982**	**72,518**
Cost of Gas			
Short term UFG	(803)	(3,876)	(1,185)
Short term Compressor fuel	(656)	(2,350)	(610)
Short term Customer Supplied			
Total short-term storage/balancing costs	**(1,459)**	**(6,226)**	**(1,795)**
Long term UFG	(4,125)	(4,833)	(8,486)
Long term Compressor fuel	(3,400)	(2,930)	(4,372)
Long term Customer Supplied	7,614	5,946	11,692
Long term 3rd P Storage	(179)	(179)	(179)
Total long-term storage/balancing costs	**(90)**	**(1,996)**	**(1,345)**
Total Cost of Gas Storage	**(1,549)**	**(8,222)**	**(3,140)**
Total Gross Profit	**25,604**	**44,760**	**69,378**
% Mgn	94%	84%	96%
O&M	(7,002)	(7,841)	(8,576)
Capital Overhead Expense		(2,162)	(5,110)
Total Operating Expenses	**(7,002)**	**(10,003)**	**(13,686)**
EBITDA	**18,602**	**34,757**	**55,692**
Depreciation - Underground Storage		(4,475)	(5,229)
Depreciation - General Plant		(958)	(1,095)
Total Depreciation	**(4,722)**	**(5,433)**	**(6,324)**
Negative Salvage on Unregulated Storage Assets		4,700	1,446
Loss on retirement of unregulated assets		(154)	-
Property Tax	(691)	(722)	(753)
Earnings before Interest and other Taxes	**13,189**	**33,148**	**50,062**
Operating Profit Mgn %	**52%**	**74%**	**72%**

Revenue and cost of gas:

Total revenue related to both short and long term unregulated storage is equal to 100% *Storage Revenue less a Rate Payer portion of Storage Margin.*
The Total Cost of Gas for Unregulated Storage is equal to 100% of the calculated Storage Costs. 100% of the storage costs are used because the rate payer deferral calculation included in revenue is based on margins. The Cost of Gas consists of UFG, Compressor Fuel, 3rd Party Storage less Customer Supplied Fuel.

For more details related to Unregulated Storage Revenue and Cost of Gas, see Section 3 of this report.

O&M expenses:

Determining the amount of Unregulated Net O&M to assign to Unregulated Storage involved reviewing existing internal orders and classifying them according to their function. The next step required applying appropriate net O&M unregulated allocation factors. For a more detailed explanation of the approach, internal order classifications and allocation factors see Section 5 of this report "Net Operations and Maintenance Expenses".

Capital overhead expense:

The 2007 capital overhead expense was calculated by Union. See section 8 "Overhead" of this report for a detailed explanation of the approaches used and conclusions reached regarding Capital overhead expense for 2008.

Depreciation – underground storage:

The unregulated 2007 depreciation expense is equal to the calculated depreciation for a underground storage asset (investment & salvage) multiplied by unregulated allocation factor for that specific asset.

The 2008 outlook calculation was as follows:

Total Dec 31, 2007 asset class multiplied by that class' depreciation rate (adjusted to exclude that classes salvage rate)

PLUS

Total New additions for 2008 multiplied by the total unregulated storage weighted average depreciation rate.

Depreciation – general plant:

The amount allocated to unregulated underground storage for general plant depreciation is simply the general plant category multiplied by the general plant rate. For 2007 actuals, this was based on actual 2007 general plant results. For the 2008 Outlook, 2007 general plant results were rolled forward and the depreciation was calculated based on the assumption that no new additions were made to general plant asset category.

Negative salvage on unregulated storage assets:

The regulated group assets include a net salvage component in their depreciation rate. The net salvage component would not be permitted for the unregulated storage assets under Canadian GAAP. As a result, the depreciation expense related to the net salvage component of the deprecation rate for unregulated storage assets was treated as a gain in 2007. The gain which should have been recognized was calculated to be $6,146K. Union booked $4,700K of the gain in 2007 and therefore, the remaining $1,446K should be recognized in 2008.

Loss on retirement of unregulated assets:

The gains, losses, and proceeds should be calculated and recognized upon disposal or retirement of an unregulated asset. Currently for regulated assets no income or loss is recognized on ordinary retirements of depreciable property. Union has calculated the loss on retirement of unregulated assets for 2007.

Property taxes:

The 2007 storage property taxes by category were obtained from the Tax group. The PP&E unregulated storage factors were applied to the storage property taxes in order to determine the 2007 unregulated property tax by category.

2008 property taxes were estimated by adding the 2008 projects and 2008 “other property taxes” ($1,085,355 - which had not been classified by category) to the 2007 property taxes. The PP&E unregulated storage factors were applied to the storage property taxes in order to determine the 2008 unregulated property tax by category.

For a more detailed explanation of the calculation, see section 6 “Property Taxes” of this report.

Go forward:

The various sections of the income statement will need be brought together in order to report the unregulated storage operations results on a monthly or quarterly basis. As described above, each department/function will have its own tasks related to calculating the unregulated storage income statement components. However, coordination will be required in order to put together the various sections of the unregulated storage income statement.

The processes, calculations and assumptions described in this report are based on the activities and processes in place at Union at the current time. In the future, as processes and activities change, there will be a need to assess the impact on the unregulated storage operations.

kpmg.ca

UNION GAS LIMITED

Answer to Interrogatory from
Consumers Council of Canada ("CCC")

Ref: Exhibit A, T4, page 15

Please provide a detailed breakdown of each of the cost elements in Table 3 (Unregulated Storage O&M by Activity). For example, for Storage Operations please list all elements of that budget and the costs associated with those elements. Please include all assumptions.

Response:

The attached schedule provides a breakdown of the cost elements in Table 3. The costs included in Table 3 are actual costs not budgeted costs, therefore there are no assumptions.

Filed: 2010-06-28
EB-2010-0039
Exhibit B2.06
Attachment

Union Gas Limited
Unregulated Net O&M
By Cost Type
($millions)

Line No.	Area	2009 Actuals	2008 Actuals	Variance
1	Salaries & Wages and Contract Services	2.3	2.2	0.2
2	Employee Expenses	0.1	0.1	0.0
3	Other	1.3	1.1	0.2
4	Total Storage Operations	3.8	3.4	0.4
5	Salaries & Wages and Contract Services	1.1	0.9	0.2
6	Employee Expenses	0.1	0.1	0.0
7	Other	0.6	0.8	-0.2
8	Total Business Development	1.8	1.8	-0.0
9	Salaries & Wages and Contract Services	0.1	0.1	0.0
10	Employee Expenses	0.0	0.0	0.0
11	Other	1.3	1.1	0.3
12	Total Regulatory	1.4	1.1	0.3
13	Salaries & Wages and Contract Services	0.7	0.5	0.2
14	Benefits	1.4	0.9	0.5
15	Employee Expenses	0.0	0.0	0.0
16	Other	0.2	0.6	-0.4
17	Total HR	2.3	2.0	0.3
18	Salaries & Wages and Contract Services	0.4	0.3	0.1
19	Employee Expenses	0.0	0.0	0.0
20	Other	0.2	0.2	-0.0
21	Total IT / ITI / BIS	0.6	0.6	0.0
22	Salaries & Wages and Contract Services	0.2	0.2	-0.0
23	Employee Expenses	0.0	0.0	-0.0
24	Other	0.5	0.5	-0.1
25	Total Administrative & General	0.7	0.8	-0.1
26	Unregulated O&M	10.5	9.6	0.9
27				
28	8 PJ Surcharge	2.3	2.3	0.0
29	Total Unregulated O&M	12.8	11.9	0.9

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers and Exporters ("CME")

Reference: Exhibit A, Tab 1, Page 8, Table 2

Please broaden Table 2 to show separate line items for "Interest, return and income taxes".

Response:

Please see the response at Exhibit B1.01 and Exhibit B1.02.

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers and Exporters ("CME")

Reference: Exhibit A, Tab 1, Page 8, Table 2

Please produce an additional table, comparable to Table 2, as broadened in response to the previous question, to show the "Short-term", "Long-tem" and "Total" line items for "Storage revenue", "Operating costs", "Interest, return and income taxes" that lead to the "Board approved" margins for "Short-term", "Long-term" and "Total" shown in Table 2 of $15.829M, $21.405M, and $37.234M respectively.

Response:

Please see the response at Exhibit B1.01 and B1.02.

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers and Exporters ("CME")

Reference: Exhibit A, Tab 1, Pages 9 and 10

As confirmed at Exhibit A, Tab 1, page 10 of 26, Union previously disposed of the 2008 LRAM balance related to unaudited DSM activities. CME wishes to better understand the 2008 variance that is being trued-up in this proceeding. To this end, please provide an explanation of the drivers of the variance between the unaudited and audited 2008 DSM activities.

Response:

The 2008 Summary Results and Responses to the Audit of Union's 2008 DSM Annual Report, filed on June 29, 2009 outlines the detailed LRAM adjustments recommended by the 2008 Audit Report.

The two major drivers of the variances between audited and unaudited 2008 LRAM were:

1. Post audit LRAM uses best available information at the time of the audit to calculate recovery of actual lost revenues. The best available information decreased LRAM by 3.515 million m^3. This information was applied to the post-audit LRAM results.

2. The Realization rates for both the Commercial Custom Verification Study and the Distribution Contract Custom Verification Study were applied to the total 2008 program savings values, post audit which decreased LRAM by 0.398 million m^3.

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers and Exporters ("CME")

Reference: Exhibit A, Tab 1, Pages 9 and 10

At Exhibit A, Tab 1, page 10, Union confirms that there were no 2009 DSM volumes included in 2009 rates. Is this consistent with Union's practice in previous years? For instance, were 2008 DSM volumes not included in 2008 rates? If this constitutes a change in practice, then please provide an explanation as to why this change has occurred. If it does not constitute a change in practice, then please explain why an estimate of 2009 DSM volumes was not included in 2009 rates.

Response:

Union ceased including forecasted DSM volumes in delivery rates upon implementation of the incentive regulation framework on January 1, 2008. The incentive regulation price cap mechanism is intended to be mechanical and formulaic. As such, it would not be appropriate to include in the annual rate calculation, the forecast impacts of Union's DSM activities.

Instead, Union captures the impact of Union's DSM activities entirely through the LRAM deferral account until such time that Union's audited DSM activities can be reflected in delivery rates.

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers and Exporters ("CME")

Reference: Exhibit A, Tab 1, Pages 18 and 19

Union is relying on previous Board-approved practice to justify clearing the recorded SSM balance related to unaudited 2009 DSM activities. CME acknowledges that in previous years the SSM incentive payout variance has not been material. That said, CME wishes to better understand Union's position on the clearance of recorded SSM balances based on unaudited DSM activities where concerns have been raised that could have a material impact on the SSM. Specifically, where an ongoing audit has identified issues that could have a material impact on the SSM balance to be cleared to ratepayers, is it Union's position that it should nevertheless clear the full amount of the SSM balance? If so, please explain why.

Response:

Any variances in the 2009 SSM balance as a result of the audit will be captured in Union's 2010 deferral disposition proceeding. Consistent with previous dispositions, the full amount of the SSM balance should be disposed of in this proceeding and then trued-up in the 2010 deferral disposition (in 2011), if required.

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers and Exporters ("CME")

Reference: Exhibit A, Tab 1, page 23, line 6

Please produce, in confidence, to those who execute the Board's Confidentiality Undertaking, the five (5) long-term Precedent Agreements between DGLP and its shippers in the same format that these documents were filed, in confidence, in the EB-2008-0411 proceeding.

Response:

The long term Precedent agreements and any information related to the agreements or exchanges is between DGLP and its shippers and is not relevant to the disposition of Union's 2009 deferral account balances or 2009 earnings sharing.

Accordingly, Union is not in the position to provide the information as requested.

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers and Exporters ("CME")

Reference: Exhibit A, Tab 1, page 23, line 6

Please confirm that the duration of each of these contracts is five (5) years or longer.

Response:

Please see the response at Exhibit B3.06.

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers and Exporters ("CME")

Reference: Exhibit A, Tab 1, page 23, line 6

Please confirm that Union, on behalf of its unregulated storage business, is the largest committed shipper on DGLP and that the term of its contract is the longest of the five (5) shippers that have made long-term binding commitments to DGLP.

Response:

Please see the response at Exhibit B3.06.

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers and Exporters ("CME")

Reference: Exhibit A, Tab 1, page 23, line 6

Please confirm that each of the committed shippers to DGLP agreed to pay monthly and annual reservation or demand charges for the duration of the terms of their respective agreements, and that these amounts do not vary with the volume shipped. The amounts are payable, even if no volumes are shipped.

Response:

Please see the response at Exhibit B3.06.

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers and Exporters ("CME")

Reference: Exhibit A, Tab 1, page 23, line 6

Please confirm that the contracts between DGLP and its shippers impose binding financial commitments on the shippers that are not conditional on a minimum spread between the price of gas in Michigan and at Dawn.

Response:

Please see the response at Exhibit B3.06.

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers and Exporters ("CME")

Reference: Exhibit A, Tab 1, page 23, line 6

Please confirm that, in total, the contracts call for the payment of many millions of dollars per annum.

Response:

Please see the response at Exhibit B3.06.

UNION GAS LIMITED

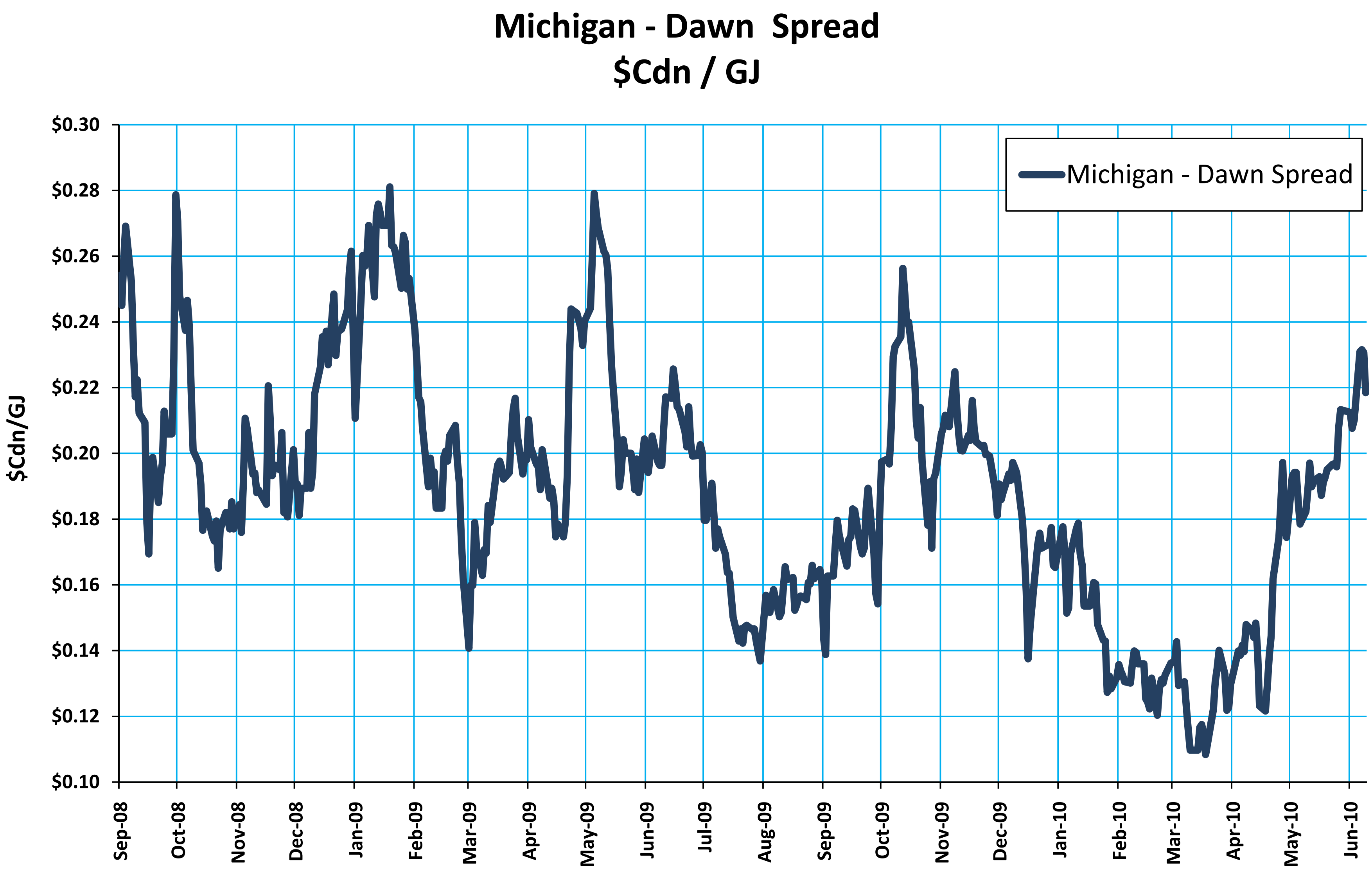
Answer to Interrogatory from
Canadian Manufacturers and Exporters ("CME")

Reference: Exhibit A, Tab 1, page 23, lines 14 to 17

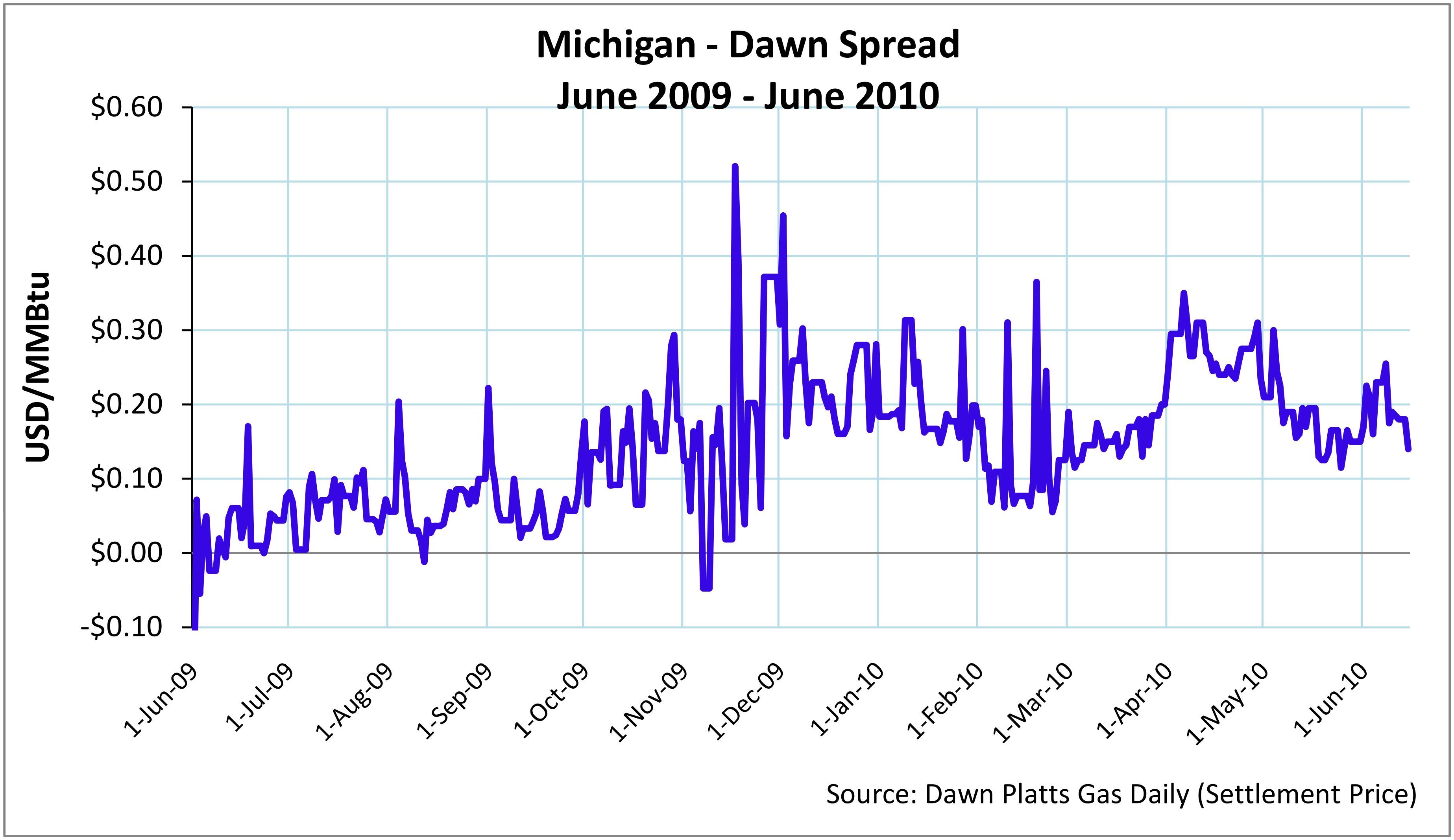
Please provide the information that was filed in the EB-2008-0411 proceeding showing the historic spreads between gas prices in Michigan compared to Dawn and update that information to show the spreads that existed on a daily basis between the period June 1, 2009, to June 1, 2010.

Response:

Please see the attachments.



Source: ICE End of Day Settles, forward basis swap, 12 month avg (Dawn less Michigan)


Michigan - Dawn Spread
June 2009 - June 2010
USD/MMBtu
$0.60
$0.50
$0.40
$0.30
$0.20
$0.10
$0.00
-$0.10
1-Jun-09
1-Jul-09
1-Aug-09
1-Sep-09
1-Oct-09
1-Nov-09
1-Dec-09
1-Jan-10
1-Feb-10
1-Mar-10
1-Apr-10
1-May-10
1-Jun-10
Source: Dawn Platts Gas Daily (Settlement Price)

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers and Exporters ("CME")

Please provide copies of all statements made by or on behalf of Union and DGLP, either in evidence or in submissions made during the course of each of the proceedings in EB-2008-0411 and EB-2009-0422 to the effect that DGLP's purchase of the St. Clair Line would be completed in March 2010, immediately following the OEB approval for the construction of a new 17 km pipeline from Bickford to Dawn and a new light-handed regulatory framework for the Ontario based portion of the transportation service DGLP proposed to offer.

Response:

Statements made by Union, in either EB-2008-0411 or EB-2009-0422, to the effect that DGLP's purchase of the St. Clair Line would be completed in March 2010, include the following:

EB-2008-0411

- Application from Union dated December 23, 2008 , paragraph 11
- June 22, 2009 hearing transcripts, testimony of Mr. Steve Baker, page 35 paragraphs 16 -24 inclusive
- December 23, 2009 correspondence from Union Gas to Board Staff re: Calculation of Under-Recovery
- Union's Reply Submissions, dated January 15, 2010, page 1 paragraphs 8,9 and 10
- OEB Decision and Order, dated March 2, 2010, paragraph 25

EB-2009-0422

- March 1, 2010 hearing transcripts, testimony of Mr. Steve Baker, pages 23 to 27 inclusive

CME was an intervenor in the EB-2008-0411 and EB-2009-0422 proceedings and has access to these materials.

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers and Exporters ("CME")

Please explain why Union does not now consider itself bound by these representations and the mandatory provisions of Orders made by the Board based thereon, including the deemed transaction date of March 1, 2010; the deemed sale price of the St. Clair Line for ratemaking purposes of $13.17M; the deemed net gain on the sale of the St. Clair Line of $7.97M; and the ratepayers share of the deemed net gain, which the Board determined shall be an amount of $6.402M, all reflected in the Board's Decision and Order dated March 2, 2010.

Response:

Union disagrees with the premise of the question. Pursuant to the Board's orders in EB-2008-0411 and EB-2009-0422, Union has recorded (i) the ratepayers' share of the deemed net gain on the sale of the St. Clair Line and (ii) the impact of removing the St. Clair Line (and related St. Clair River Crossing) from rates (including all rate base and OM&A consequences) beginning March 1, 2010, in separate deferral accounts.

However, as noted in the evidence, the sale of the St. Clair Line to Dawn Gateway has not closed. Until such time as the sale does close, Union will not seek disposition of the accounts. This is consistent both with the Board's orders and the wording of the deferral accounts. For example, deferral account No. 179-121 provides that it is:

"To record, as a credit in Deferral Account No.179-121, the cost of removal for the St. Clair Transmission Line ordered by the Board in EB-2008-0411 to be equal to the amount of the cumulative under-recovery of Union's St. Clair Pipeline, from 2003 <u>until the time of the sale of the asset, to be refunded to ratepayers</u>." [Emphasis added]

Union has attached DGLP's letter, dated April 19, 2010, informing the Board and intervenors that the Dawn Gateway was being delayed. Please see the attachment.

DawnGateway Pipeline™

April 19th, 2010

BY RESS, email & Courier

Ms. Kirsten Walli, Board Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
Toronto, Ontario
M4P 1E4

Dear Ms. Walli:

Re: Board File # EB-2009-0422
Dawn Gateway Pipeline Limited Partnership

Further to the Board's decisions regarding the above noted matter, we would like to update you on the status of the proposed Dawn Gateway Pipeline.

Based on the Board's decisions in EB-2009-0422 and EB-2008-0411, Dawn Gateway was prepared to move forward with the construction of the Dawn Gateway Pipeline. Shortly after receiving Board approval, Dawn Gateway was approached by our Shippers with a request to delay construction, due to evolving market dynamics. As a result of this request Dawn Gateway has agreed to delay construction, originally scheduled to begin in the summer of 2010. An assessment of the market conditions that would support the project will be made with Shippers this fall.

The final preferred route for this pipeline will not change as a result of the revised project construction schedule and all existing landowner commitments negotiated with Dawn Gateway will be honoured at the time of any construction.

To ensure the public is aware of this change, Dawn Gateway will send letters to affected landowners, intervenors and other stakeholders.

We will keep you informed of any future developments with this pipeline projects. Please bring this letter to the attention of the Board panel members involved with this project.

Should you have any questions, please do not hesitate to contact me.

Sincerely,

Mark Murray
Manager Regulatory Projects & Land Acquisition
for Union Gas Limited, as agent for
Dawn Gateway Pipeline Limited Partnership

cc: Neil McKay, Manager Facilities Applications
Zora Crnojacki, Project Advisor
Sharon Wong – Blake, Cassels
All Intervenors

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers and Exporters ("CME")

Reference: Exhibit A, Tab 1, page 23, line 7 to page 24, line 2

Mr. Baker, an executive of Union, testified to support Union's Application for leave to sell the St. Clair Line and DGLP's subsequent application for leave to construct the Bickford to Dawn extension of the St. Clair Line and approval of a light-handed regulatory regime for DGLP. Is Mr. Baker responsible for representing Spectra's interests in DGLP? If not Mr. Baker, then who is?

Response:

Mr. Steve Baker, VP Business Development Storage & Transportation and Mr. Mark Isherwood, Director Business Development represented Union at the leave to sell hearing, EB-2008-0411, as well as represented DGLP at the leave to construct hearing EB-2009-0422. As of April 1, 2010 Mr. Allen Capps has replaced Mr. Baker who has assumed a new role within Spectra Energy. Mr. Allen Capps currently represents Spectra's interests in DGLP.

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers and Exporters ("CME")

Reference: Exhibit A, Tab 1, page 23, line 7 to page 24, line 2

Who is the executive at Union that is responsible for Union's unregulated storage business?

Response:

Mr. Allen Capps, VP, Business Development Storage & Transmission is responsible for Union's unregulated commercial business.

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers and Exporters ("CME")

Reference: Exhibit A, Tab 1, page 23, line 7 to page 24, line 2

Please provide copies of all documents and e-mails exchanged between DGLP and any of its shippers that asked to delay construction of the Dawn Gateway Pipeline and DGLP's responses to those requests.

Response:

Union understands that the Shippers' request for a delay of the Dawn Gateway project was substantively conveyed in discussions between DGLP and the shippers. Attached are two emails which summarize those discussions and relevant events..

1) March 12th email, is a summary of telephone communications between DGLP's co-presidents and shippers. Due to the rapidly changing market conditions the shippers requested the ability to exit the project. Based on the options discussed, DGLP agreed with the shippers request and made the decision to exit and cancel the project subject to shippers reimbursing DGLP for project costs.

2) March 31st email, is a summary of a March 30th meeting between DGLP and shippers to finalize the terms and conditions of the amendment to the existing Precedent Agreements. The original proposal to exit and cancel the project discussed on March 12th was modified at the shippers' request. The shippers now wanted the option to delay the project until 2011 or 2012 rather than terminate the project outright. In exchange for not only covering the existing project costs, the shippers agreed to modify their existing rate to cover any potential increase in project costs due to delaying the project. These terms and conditions discussed within the email were ultimately incorporated into the amended Precedent Agreements executed April 8th.

From: Baker, Steve - Chatham
Sent: March 12, 2010 1:17 PM
To: Dill, Julie; Birmingham, Rick; Shannon, Mike - Chatham; Capps, Allen
Cc: Isherwood, Mark; Priestley, Glen; Baker, Steve - Chatham; Lindsay, Michelle
Subject: Dawn Gateway

Importance: High

Pete Cianci and I have had calls all morning with [redacted] and [redacted] on the project – the following are the highlights:

1) Both [redacted] and [redacted] would prefer to exit the project and pay our out of pocket costs – the MI- Dawn spreads have fallen to such a level that they could not cover variable fuel costs in summer and only $0.03/dth value in the winter ([redacted] appears to be in same position although I did not talk to them directly) – these spreads have come off within the last 1-2 weeks (ie. Very quickly)
2) Ton of uncertainty in all markets – no economics anywhere to flow gas on any pipeline (ie. Generally, basis differentials do not even cover variable fuel costs
3) Options Pete and I discussed:
   a) Go forward and construct project
   b) Not commit to pipe today but try to seek another 30-40 day extension – if that is not possible, look into other pipe suppliers that could meet timing to still allow us to construct in 2010 (Note: we want/need to preserve 2010 build so that we preserve the option to proceed to extent that the shippers do not agree to cover our out of pocket costs incurred to date)
   c) Delay pipe and project to 2011 – keep shippers commited to project and assess market conditions over the next 12 months
   d) Exit/cancel project and shippers agree to pay out of pocket costs

We have landed on option (d) – both [redacted] and [redacted] would prefer to cut a cheque and exit – they will consider project in future if market conditions support. Option (a) just does not feel right – to have no shipper support and with relations/business we have with the shippers, we do not feel this would be in our best interests moving forward. Option (b) as noted is to preserve our option to build in order to put us in strong position to negotiate for recovery of costs. Option (c) was considered but this would entail us taking on additional risk – ie. If we agreed to defer 1 year, there is good chance our costs would increase (pipe and contractor costs) and we would have the issue of the UG "ratepayer harm" which would continue to increase over time until we actually purchased the St Clair line – we did not feel we should provide this type of no cost option to shippers and as noted above, they did not want it. This really left us with Option (d).

Next Steps:

1) Mike S – communicate with Supply Chain – see if current pipe supplier will extend the no cost cancellation timing – if they will not provide this, we will need to inform that we are not in a positon to commit to the pipe and we need supply chain to look at other pipe acquisition options to deliver pipe in time to meet 2010 in service
2) Mark/Carol – DTE wanted to know if we were still interested in any of the [redacted] bcf MIchcon storage even if Gateway does not proceed – pls consider this – I indicated to Pete that we would consider this but I felt it would be unlikely we would need/take it – Mark – pls conclude and inform DTE ASAP
3) Pete/DTE – will take lead to arrange a meeting of all 4 non-owner shippers to discuss exit plan with objective to arrive at an agreement that will see all our out of pocket costs covered – target end of March
4) Glen/Chris Z – finalize details of all out of pocket costs
5) Rick – will need to inform the OEB + as discussed, we should continue to seek the rate order and seek and extension of leave to construct to allow project to proceed at a later date if market conditions support – also

assume we will need to meet with Board at some point to walk them through what happened and the market drivers

6) We discussed continued work to get Michigan PUC tariff approvals so we had all regulatory approvals in hand so we would be in position to restart the project if supported by market – DTE and SE are still commited to pursue the project in future should conditions support.

This is clearly not where we wanted to be but I believe this proposal to be our best course of action in the circumstances we find ourselves in – this market is changing quickly as we know, and this is certainly support for the volatility.

Please do NOT forward this email – this is extremely confidential as we will be heading into a negotiated settlement with shippers very shortly.

Thx

Steve Baker
Vice President
Business Development, Storage & Transmission
Union Gas Limited, A Spectra Energy Company

sbaker@spectraenergy.com
519.436.5216 (office)
519.359.4929 (cell)
519.436.4667 (fax)

Filed: 2010-06-28
EB-2010-0039
Exhibit B3.17
Attachment #2

From: Baker, Steve - Chatham
Sent: March 31, 2010 5:25 AM
To: Isherwood, Mark; Priestley, Glen
Cc: Baker, Steve - Chatham; Capps, Allen
Subject: Dawn Gateway

Overview of shipper meeting:

- shippers agree to pay [redacted] except [redacted] - remaining 3 will split on dth basis
- 3 shippers want extension option to 2011 and 2012
- 3 shippers agree to potential for rate escalator if pipe/contractor costs increase (part of decision to proceed)
- 3 shippers will pay costs (all different timing) and then want this recognized in rate if DG proceeds [redacted] to pay now in 2010, [redacted] wants to pay Jan/2011 and [redacted] monthly over 2011
- [redacted] would agree to exit and termintate PA (they are escaping any costs) - 3 remaining shippers not happy but appeared only option
- 3 remaining shippers would split [redacted] (effectively get option on this capacity in return for paying [redacted] share of costs)
- would require unanimous vote by all 3 to proceed
- [redacted] wanted land rights to B-D - I said no way

Issues/concerns:
1) Extension option to 2012 and timing of cost payment - suspect that if we do make decision in 2010 for 2011 in service AND we do not get cost recovery/cash in 2010, we would have to take write off of costs in 2010 - need to discuss with Finance. If we deferred to 2012 but shippers paid cash in 2010, could we avoid having to write-off in 2010?
2) Deal structure - discussed doing side/letter agreement to cover:
A) need unanimous agreement by all 3 to proceed
B) outline [redacted] costs sharing among the 3
C) outline timing of payment (ideally all in 2010 - we should not take any more carry cost risk)
D) outline allocation of [redacted] capacity among remaining 3
E) IF [redacted] does not agree to pick up share of [redacted] costs, the [redacted] of [redacted] capacity would get split between [redacted] and [redacted] (based on MDQxtermx rate)
F) outline project timing - ie. Decision no later than Nov/2010 for 2011 ISD + decision no later than Nov/2011 for 2012 ISD

Overall - 3 remaining shippers are agreeing to pay costs and in return get:
1) Option to decide to proceed (if market turns around and if rate adjustment works to pick up any costs increases we may face)
2) Option to get allocation of [redacted] capacity in return for picking up [redacted] share of costs

Need to get all this finalized and papered by Apr 8 - DTE will take lead on drafting agreement.

We need to get clarity on accounting treatment/potential 2010write off of the options being considered as we need to find a way to avoid.

Will call when get to Houston.

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers and Exporters ("CME")

Reference: Exhibit A, Tab 1, page 23, line 7 to page 24, line 2

Did a representative of Union's unregulated storage business submit a written or oral request to DGLP to delay construction of the pipeline? If so, identify who made the request on behalf of the unregulated storage business and the representative of DGLP to whom the request was made.

Response:

Union supported the pipeline project proceeding but understands there were other shippers who had approached DGLP and requested that the project be delayed. Union did not submit a written or oral request to DGLP to delay the pipeline. See also response at Exhibit B3.17.

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers and Exporters ("CME")

Reference: Exhibit A, Tab 1, page 23, line 7 to page 24, line 2

What action, if any, was taken by Union's Board of Directors to determine whether Union should or should not seek a delay in the construction of the Dawn Gateway Pipeline? If any action was taken by the Board of Directors, then please produce excerpts from the Minutes of the Board of Directors meetings pertaining to the matter.

Response:

This issue was properly considered by management of Union Gas Limited. The Board of Directors did not take any action, nor was it required to.

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers and Exporters ("CME")

Reference: Exhibit A, Tab 1, page 23, line 7 to page 24, line 2

Please list the commitments DGLP had made to third parties such as its contractor(s), steel supplier(s), and land owners as of April 22, 2010, when Union filed its evidence in this proceeding and quantify the approximate value of each of those commitments.

Response:

Union understands DGLP had no outstanding commitments with third parties including steel suppliers and land owners as of April 22, 2010.

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers and Exporters ("CME")

Reference: Exhibit A, Tab 1, page 23, line 7 to page 24, line 2

Please quantify all of the costs DGLP incurred in connection with the Dawn Gateway Pipeline, including the costs of its participation in Union's application to sell the St. Clair Line, DGLP's initial application to the NEB and its subsequent application to the OEB for leave to construct and approval of a light-handed regulatory regime for DGLP.

Response:

The costs incurred by DGLP in related to Union's application to sell the St. Clair Line, DGLP's application to the NEB and DGLP's leave to construct and alternative regulatory framework application to the OEB are not relevant to the disposition of Union's 2009 deferral account balances or 2009 earnings sharing.

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers and Exporters ("CME")

Reference: Exhibit A, Tab 1, page 23, line 7 to page 24, line 2

What indemnities did DGLP demand from its five (5) committed shippers in exchange for its agreement to delay construction and to determine by November 1, 2010, whether the pipeline will proceed for in-service in November 2011?

Response:

Please see the response at Exhibit B3.06.

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers and Exporters ("CME")

Reference: Exhibit A, Tab 1, page 23, line 7 to page 24, line 2

Have DGLP's shippers agreed to indemnify DGLP for the cost consequences of all of the commitments it made and the actions it took to obtain the requisite approvals for constructing the Dawn Gateway Pipeline for an in-service date of November 2010? If not, then what action does DGLP plan to take to recover the costs it has incurred for such commitments from its five (5) committed shippers?

Response:

Please see the response at Exhibit B3.06.

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers and Exporters (“CME”)

Reference: Exhibit A, Tab 1, page 23, line 7 to page 24, line 2

Please produce, in confidence if necessary, copies of the amended agreements DGLP has made with each of its five (5) committed shippers.

Response:

Please see the response at Exhibit B3.06.

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers and Exporters ("CME")

Reference: Exhibit A, Tab 1, page 24, lines 4 and 5

The evidence at Exhibit A, Tab 1, page 24, lines 4 and 5 states:

> "Given the delay in the construction of the Dawn Gateway Pipeline, Dawn Gateway has not proceeded with the purchase of the St. Clair Transmission Line."

Please provide copies of all communications from a representative of DGLP to a representative of Union's utility pertaining to DGLP's decision not to proceed with the purchase of the St. Clair Transmission Line.

Response:

Please see the response at Exhibit B3.17.

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers and Exporters ("CME")

Reference: Exhibit A, Tab 1, page 24, lines 4 and 5

What executive at Union is responsible for representing the interests of Union's regulated utility in transactions involving the sale of Union's transmission line assets to a third party?

Response:

As indicated at Exhibit B3.15, Mr. Steve Baker, VP, Business Development Storage and Transportation and Mr. Mark Isherwood, Director, Business Development represented Union at the EB-2008-0411, Leave to Sell proceeding. As of April 1, 2010, Mr. Allen Capps has replaced Mr. Baker.

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers and Exporters ("CME")

Reference: Exhibit A, Tab 1, page 24, lines 4 and 5

What was the response of the Union executive representing the regulated utility to the notice from DGLP that it would not proceed with the purchase of the St. Clair Transmission Line in March 2010 as repeatedly represented to the Board?

Response:

Please see the response at Exhibit B3.18.

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers and Exporters ("CME")

Reference: Exhibit A, Tab 1, page 24, lines 4 and 5

What action, if any, was taken by Union's Board of Directors in determining whether Union's utility should or should not insist upon the completion of the transaction in March 2010. If any action was taken by the Board of Directors, then please provide excerpts from the Minutes of Board of Directors Meetings pertaining to the matter.

Response:

There was no action taken by Union's Board of Directors.

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers and Exporters (“CME”)

Reference: Exhibit A, Tab 1, page 24, lines 4 and 5

What amount did Union spend in 2009 and 2010 in connection with its application for leave to sell the St. Clair Line and DGLP’s application to the NEB, followed by its application to the OEB for leave to construct and approval of a light-handed regulatory regime? Please provide a breakdown of these amounts by service provider.

Response:

Union has incurred the following costs in connection with the following applications. All of these costs will be paid by DGLP and therefore, none of these costs will impact ratepayers.

EB-2008-0411 Union Gas Limited – Leave to Sell St. Clair Line	2009	2010
Board Costs	$0.00	$15,324.37
Intervenor Cost Awards	$0.00	$156,073.79
Legal counsel fees	$248,378.89	$28,959.38
EB-2009-0422 – Dawn Gateway Pipeline Limited Partnership –Leave to Construct and Regulatory Framework		
Board Costs	$0.00	$0.00
Intervenor Cost Awards	$0.00	$38,979,02
Legal counsel fees	$27,199.52	$117,269.33
NEB File OF-Fac-Gas-D159-2009-01 01 – Dawn Gateway Limited Partnership		
Legal counsel fees	$668,336.67	$24,013.02

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers and Exporters ("CME")

Reference: Exhibit A, Tab 1, page 24, lines 4 and 5

Please explain what amounts Union plans to claim from DGLP in the event that the Board affirms, in this proceeding, that Union is, for ratemaking purposes, obliged to credit its ratepayers with $6.402M and to remove the St. Clair Line from Rate Base as of March 1, 2010, by making the credit entries to the "Impact of Removing the St. Clair Line from Rates" deferral account and eventually clearing those balances to ratepayers.

Response:

In the event that the Board finds that Union is obligated to credit ratepayers with $6.402 million and to remove the St. Clair Line from rate base in this proceeding, Union will make no claim from DGLP. There are no contractual provisions between DGLP and Union that would allow Union to make such a claim.

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers and Exporters ("CME")

Reference: Exhibit A, Tab 1, pages 21 to 24

For the purposes of providing responses to the following requests, please assume that, for ratemaking purposes in this proceeding, the Board adheres to its Decisions in the EB-2008-0411 and EB-2009-0422 proceedings and that, *inter alia*, as of March 1, 2010, Union ratepayers are no longer at risk for any costs associated with the St. Clair Transmission Line. Under these assumptions, please provide the following information:

a) Please revise Exhibit A, Tab 1, Schedule 1 to include, in Account #179-121, the credit balance of $6.402M, plus accrued interest thereon, if any.

b) Assuming that the amount recorded in Account #179-121 of $6.402M, plus any accrued interest thereon, is to be allocated to ratepayers now, please show how Union would propose to allocate that amount to its various rate classes.

c) Please provide an estimate of the March 1, 2010, to December 31, 2010 monthly amounts and year end balances that would be recorded in Account #179-122 to capture the effect of removing the St. Clair Transmission Line from rates effective March 1, 2010.

d) Please provide an estimate of the monthly amounts and year end balances that would be recorded in Account #179-122 to capture the effect of removing the St. Clair Transmission Line from rates for each of the periods January 1, 2011, to December 31, 2011, and January 1, 2012, to December 31, 2012.

e) Please provide the net present value, at July 1, 2010, of the estimated amounts to be recorded in Deferral Account #179-122 above for the entire period March 1, 2010, to December 31, 2012.

Response:

a) A restatement of Exhibit A, Tab 1, Schedule 1 is provided at Attachment 1.

b) The allocation to rate classes is provided in Attachment 2.

c) Union estimates it will record $102,400 per month in account 179-122 for the period March 1, 2010 to December 31, 2010. At December 31, 2010, the estimated year-end balance is $1.024 million plus $2,597 of accrued interest.

d) Union estimates it will record $99,750 per month in account 179-122 for 2011. At December 31, 2011, the estimated year-end balance is $1.197 million plus $3,580 of accrued interest.

Union estimates it will record $97,417 per month in account 179-122 for 2012. At December 31, 2012, the estimated year-end balance is $1.169 million plus $3,497 of accrued interest.

e) The net present value of the monthly amounts shown in c) and d) at July 1, 2010 is $3.370 million.

Filed: 2010-06-28
EB-2010-0039
Exhibit B3.31
Attachment #1

UNION GAS LIMITED
Deferral Account Balances, Market Transformation Incentive and Federal and Provincial Tax Changes
Year Ending December 31, 2009

Line No.	Account Number	Account Name	Balance ($000's) (1)	
	Gas Supply Accounts:			
1	179-108	Unabsorbed Demand Costs Variance Account	(1,285)	(2)
	Storage Accounts:			
2	179-70	Short-Term Storage and Other Balancing Services	(4,949)	
3	179-72	Long-Term Peak Storage Services	(14,787)	
4	Total Storage Accounts (Lines 2 + 3)		(19,736)	
	Other:			
5	179-26	Deferred Customer Rebates/Charges	-	
6	179-75	Lost Revenue Adjustment Mechanism	2,394	
7	179-102	Intra-period WACOG Changes	(7,615)	
8	179-103	Unbundled Services Unauthorized Storage Overrun	-	
9	179-111	Demand Side Management Variance Account	1,468	
10	179-112	Gas Distribution Access Rule (GDAR) Costs	-	
11	179-113	Late Payment Penalty Litigation	5,651	
12	179-115	Shared Savings Mechanism	8,922	
13	179-117	Carbon Dioxide Offset Credits	-	
14	179-118	Average Use Per Customer	(2,144)	
15	179-120	IFRS Conversion Cost	3,989	
16	179-121	Cumulative Under-recovery – St. Clair Transmission Line	(6,402)	
17	Total Other Accounts (Lines 5 through 16)		6,262	
18	Total Deferral Account Balances (Lines 1 + 4 + 17)		(14,759)	
19		Market Transformation Incentive	500	
20		Federal and Provincial Tax Changes	(1,500)	
21	Total Deferral Account Balances, Market Transformation Incentive and Federal and Provincial Tax Changes (Lines 18 + 19 + 20)		(15,758)	

Notes:
(1) Account balances include interest to December 31, 2009.

(2) With the exception of UDC (No. 179-108), all gas supply-related deferral account balances are disposed through the QRAM process.

Account #179-121 Cumulative Under-recovery - St Clair Transmission Line

Line No.	Rate Class	Ojibway / St. Clair Design Day Demand (1) (10^3m^3/day)	Cumulative Under-recovery St. Clair Transmission Line ($000's)
1	01	-	-
2	10	-	-
3	20	-	-
4	20T	-	-
5	77	-	-
6	100T	-	-
7	25	-	-
8	Total Northern & Eastern Operatio	-	-
9	M1	3,763	1,586
10	M2	1,231	519
11	M4	532	224
12	M5	103	44
13	M7	389	164
14	M9	-	-
15	M10	-	-
16	T1	7,866	3,316
17	T3	-	-
18	Total Southern Operations	13,885	5,853
19	M12	-	-
20	M13	-	-
21	C1	1,023	431
22	M16	279	118
23	Total Storage and Transportation	1,302	549
24	Total	15,187	6,402

Notes:
(1) EB-2005-0520, Exhibit G3, Tab 5, Schedule 24, Page 5.

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers and Exporters ("CME")

References: Exhibit A, Tab 2; Exhibit A, Tab 2, Appendix B, Schedule 1

Please provide a copy of Union's Annual Financial Statements referred to at Exhibit A, Tab 2, page 4, line 16.

Response:

Please see the response at Exhibit B1.08.

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers and Exporters ("CME")

References: Exhibit A, Tab 2; Exhibit A, Tab 2, Appendix B, Schedule 1

Please show the effect on the Earnings Sharing calculation at Exhibit A, Tab 2, Appendix B, Schedule 1 of recording a gain, for ratemaking purposes, of $1.6M on a deemed sale of the St. Clair Line for $13.17M on March 1, 2010, as described in the Board's EB-2008-0411 Decision and Order dated May 11, 2010.

Response:

The sale of the St. Clair line for deemed proceeds of $13.17 million results in a deemed gain of $8 million of which $6.4 million is refunded to ratepayers as a result of the Board's decision in EB-2008-0411. The remaining $1.6 million is the shareholder portion of the deemed gain. This amount is not included in the calculation of the 2009 earnings sharing amount. This is consistent with the treatment of other transactions where the ratepayer benefit is distributed directly through a deferral account rather than the earnings sharing calculation. For example, in the past the shareholder portion of transportation deferral accounts was excluded from earnings sharing.

This transaction has no impact on the amount of the earnings sharing.

Please see footnote v) on the attached schedule.

UNION GAS LIMITED
Earnings Sharing Calculation
Year Ended December 31, 2009

Line No.	Particulars ($000's)	2009 (a)	Non-Utility Storage (b)	Adjustments (c)		2009 Utility (d)=(a)-(b)+(c)
	Operating Revenues:					
1	Operating revenue	$ 1,699,503	$ -	$ -		$ 1,699,503
2	Storage & Transportation	299,108	119,909	(1,874)	i	177,325
3	Other	35,760	-	(9,047)	ii	26,713
4		2,034,371	119,909	(10,921)		1,903,541
	Operating Expenses:					
5	Cost of gas	1,025,674	6,318	-		1,019,356
6	Operating and maintenance expenses	332,607	12,897	(1,646)	iii	318,064
7	Depreciation	194,485	7,312	-		187,173
8	Other financing	-	-	474	iv	474
9	Property and capital taxes	68,392	1,754	-		66,638
10		1,621,158	28,281	(1,172)		1,591,705
	Other					
11	Lobo C / Brantford-Kirkwall write off	(1,889)	-	-		(1,889)
12	Gain / (Loss) on sale of assets	(6,838)	(436)	6,402	v	-
13	Other	(1,094)	(1,094)			-
14	Gain / (Loss) on foreign exchange	(1,207)	(46)	-		(1,161)
15		(11,028)	(1,576)	6,402		(3,050)
16	Earning Before Interest and Taxes	$ 402,185	$ 90,052	$ (3,347)		$ 308,786
	Financial Expenses:					
17	Long-term debt					150,719
18	Unfunded short-term debt					606
19						151,325
20	Utility income before income taxes					157,461
21	Income taxes					28,767
22	Preferred dividend requirements					2,665
23	Utility earnings					126,029
24	Long term storage premium subsidy (after tax)					7,171
25	Short term storage premium subsidy (after tax)					7,540
26						14,711
27	Earnings subject to sharing					$ 140,740
28	Common equity					1,253,827
29	Return on equity (line 27 / line 28)					11.22%
30	Benchmark return on equity					10.47%
31	50% Earnings sharing % (line 29 - line 30, maximum 1%)					0.75%
32	90% Earnings sharing to ratepayer % (if line 31 = 1% then line 29 - line 30 - line 31)					0.00%
33	50% Earnings sharing $ (line 28 x line 31 x 50%)					4,732
34	90% Earnings sharing to ratepayer $ (line 28 x line 32 x 90%)					-
35	Total earnings sharing $ (line 33 + line 34)					4,732
36	Pre-tax earnings sharing (line 35 / (1 minus tax rate))					$ 7,063

Notes:

i) Remove out of period accounting of C1 Margin rebate related to 2007

ii)	Shared Savings Mechanism	(8,879)
	Market Transformation Incentive	(500)
	Accounting adjustment	332
		(9,047)
iii)	Donations	(446)
	Remove out of period PST assessment related to prior periods	(1,200)
		(1,646)

iv) Customer deposit interest

v)	Gain on deemed sale of St. Clair Line (EB-2008-0411)	13,170
	Less: cost of the St. Clair Line	(5,183)
	Less: shareholder portion	(1,585)
		6,402

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers and Exporters ("CME")

References: Exhibit A, Tab 4; Exhibit A, Tab 2, Appendix B, Schedule 1

In order to enable interested parties to obtain a clearer picture of the separation of Union's Utility and Non-utility Storage Revenues, Expenses and Earnings from the Total Corporate Revenues, Expenses and Earnings, please provide an Exhibit comparable to lines 1 to 16 of Exhibit A, Tab 2, Appendix B, Schedule 1 that shows, for each line item, the amounts for 2009 in column (a) and then, in a new column (b), the amounts, for each line item, for "Utility Storage", followed by the amounts for "Non-utility storage" now shown in column (b) of Exhibit A, Tab 2, Appendix B, Schedule 1, followed by a fourth column (d) entitled "Total Storage".

Response:

The information required to complete a "Utility Storage" column is not available for actual results. Union does not record actual transactions by function.

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers and Exporters ("CME")

References: Exhibit A, Tab 4; Exhibit A, Tab 2, Appendix B, Schedule 1

Please explain how Union separates regulated and unregulated storage revenues.

Response:

Revenues are recorded based on the services provided. Union's unregulated storage revenue is recorded as billed to customers in a separate storage revenue account. Most in-franchise customers are provided a bundled delivery service that includes storage. The storage component of the delivery revenue is not separately recorded. The only separately identifiable storage revenue from the in-franchise customers is from unbundled storage services.

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers and Exporters ("CME")

References: Exhibit A, Tab 4; Exhibit A, Tab 2, Appendix B, Schedule 1

Was the storage capacity Union held at December 31, 2007, the total of 162.1 PJs referenced at Exhibit A, Tab 4, page 4, of which about 100 PJs or about 61.6% thereof was allocated to regulated storage? If not, then what are the correct amounts as of December 31, 2007?

Response:

The storage capacity of 162.1 PJ quoted in the evidence was a forecast number used for the NGEIR proceeding. The actual storage space held at December 31, 2007 was 162.5 PJ.

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers and Exporters ("CME")

References: Exhibit A, Tab 4; Exhibit A, Tab 2, Appendix B, Schedule 1

What is the total storage capacity Union held at December 31, 2009, and what is the current ratio of regulated storage capacity of 100 PJs to total storage capacity?

Response:

At December 31, 2009, Union held 166.5 PJ of storage capacity. The resulting ratio of regulated storage capacity of 100 PJ to the total storage is 60.1%.

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers and Exporters ("CME")

References: Exhibit A, Tab 4; Exhibit A, Tab 2, Appendix B, Schedule 1

To help interested parties better understand the allocation of Union's total net asset costs between its regulated and unregulated storage activities, we request that an Exhibit be filed, that reconciles with the Financial Statement Balance Sheets for Union Gas Limited, and shows, by OEB Uniform System of Accounts line item and account number, the total asset costs for the company as a whole at December 31, 2007. From the totals shown for the company as a whole, show in a second column the line item and total asset costs related to "Storage". In a third column, show the portion of the line item and total storage related asset costs that are assigned or allocated to the Utility and in a fourth column, show the portion of each line item of costs that is allocated or assigned to Non-utility storage. In a fifth column, identify each of the allocators that have been used in each of the line items to separate the total storage costs between Utility and Nonutility storage.

Response:

The information required to complete a "Utility Storage" column is not available for actual results. As Union is run as an integrated operation there are only two accounts on the balance sheet for which an unregulated balance can be identified.

Please see the attachments, as outlined below.

Attachment 1 – 2007 - OEB Uniform System of Accounts mapped to Union Gas Limited's balance sheet

Attachment 2 – 2007 – Continuity of Property, Plant and Equipment

Attachment 3 – 2007 – Continuity of Accumulated Depreciation

Filed: 2010-06-28
EB-2010-0039
Exhibit B3.38
Attachment #1

GENERAL ACCOUNT #	USOA GENERAL ACCOUNT NAME	OEB - CURRENT BALANCE - $ (UGL Non-Cons)	UGL - Consolidation Entries (HTLP) - $	Reclassification Entries - $	Foot Notes	Balance - UGL - Cons - $	Annual Report Line Item - TOTAL ($millions)	Annual Report Line Item - Description	Balance Assigned to Unregulated Storage
BALANCE SHEET - ASSETS									
Property, Plant and Equipment							**3,606**	**Property, plant and equipment, net**	**150**
100	Utility Plant in Service	5,481,395,664		(517,518)	M	5,480,878,146			
101	Utility Plant Leased to Others					-			
102	Utility Plant Held for Future Use					-			
103	Retirement Work In Progress					-			
104	Utility Plant Acquisition Adjustments					-			
105	Accumulated Depreciation - Utility Plant	(2,055,777,282)				(2,055,777,282)			
106	Accumulated Amortization - Utility Plant					-			
108	Accumulated Amortization - Utility Plant - Acquisition Adjustments					-			
110	Other Utility Plant	639,000				639,000			
111	Accumulated Depreciation and Amortization - Other Utility Plant					-			
115	Construction Work In Progress - Utility Plant	156,962,253	22,416,334			179,378,587			
116	Other Utility Plant Under Construction					-			
Long Term Investments							-		
120	Investment in Related Parties	36,245,868	(36,245,868)			-			
121	Portfolio Investments					-			
123	Miscellaneous Special Funds					-			
Current Assets							**571**	**Total Current Assets**	
130	Cash	(246,402,454)		246,402,454	K,L	-			
131	Special Deposits					-			
132	Short-term Investments					-			
140	Accounts Receivable-Customers	359,862,582				359,862,582			
141	Accounts Receivable-Related Parties	2,670,679				2,670,679			
142	Accounts Receivable-Others	6,877,770				6,877,770			
145	Allowance for Doubtful Accounts	(5,051,215)				(5,051,215)			
147	Interest and Dividends Receivable					-			
150	Materials and Supplies	26,060,890				26,060,890			
151	Materials and Supplies-Other					-			
152	Gas in Storage-Available for Sale	121,953,143				121,953,143			
153	Transmission Line Pack Gas	14,731,732				14,731,732			
160	Prepayments	804,466				804,466			
162	Other Current Assets			1,368,233	E	1,368,233			
163	Current Deferred Income Tax Debits	33,136,090				33,136,090			
Deferred Charges									
170	Unamortized Debt Discount and Expense	9,762,011		(9,762,011)	A	-			
171	Extraordinary Plant Losses					-			
172	Preliminary Survey and Investigation Charges					-			
177	Share Capital Expense					-			
179	Other Deferred Charges - See Schedule 1	78,933,605		(70,006,483)	C,D,F,G,H,I,J	8,927,122			
Other Assets							**236**	**Investments and other assets**	
180	Intangible Assets	8,832,535	3,014,645			11,847,180			
181	Unamortized Deferred Foreign Currency Translation Gains and Losses					-			
182	Deferred Development Costs					-			
183	Non-Current Deferred Income Tax Debits					-			
	Other Assets			223,736,502	F,G,I,J,M	223,736,502			

GENERAL ACCOUNT #	USOA GENERAL ACCOUNT NAME	OEB - CURRENT BALANCE - $ (UGL Non-Cons)	UGL - Consolidation Entries (HTLP) - $	Reclassification Entries - $	Foot Notes	Balance - UGL - Cons - $	Annual Report Line Item - TOTAL ($millions)	Annual Report Line Item - Description	Balance Assigned to Unregulated Storage
BALANCE SHEET - LIABILITIES and SHAREHOLDERS' EQUITY									
Shareholders' Equity							**(1,371)**	**Shareholder's Equity and Non-controlling Interst**	
200	Preference Shares	(104,500,000)				(104,500,000)			
205	Common Shares	(627,062,581)				(627,062,581)			
210	Contributed Surplus	(453,557)				(453,557)			
212	Retained Earnings	(484,145,727)		(145,162,919)	B	(629,308,646)			
215	Appropriations of Retained Earnings					-			
216	Appraisal Increase Credits					-			
	Non-controlling Interest		(9,807,949)			(9,807,949)			
Long Term Debt							**(1,737)**	**Long Term Debt and obligations under capital lease & Mandatorily redeemable preference shares**	
220	Long-Term Debt	(1,744,858,600)				(1,744,858,600)			
225	Long Term Lease Obligations	(1,452,157)				(1,452,157)			
248	Long Term Advances from Related Parties					-			
249	Other Long Term Debt			9,762,011	A	9,762,011			
Current Liabilities							**(986)**	**Total current liabilites**	
250	Loans and Notes Payable					-			
251	Accounts Payable and Accrued Liabilities	(325,374,028)	(1,877,162)			(327,251,190)			
252	Accounts Payable and Accrued Liabilities-Related Parties	(126,802,893)	22,500,000			(104,302,893)			
253	Dividends Payable					-			
254	Customers Security Deposits	(59,197,022)				(59,197,022)			
255	Customers Advances for Construction					-			
256	Taxes Payable - Current	1,368,233		(1,368,233)	E	-			
257	Interest Payable and Accrued	(32,422,666)				(32,422,666)			
258	Current Portion of Long Term Debt	(107,000,000)				(107,000,000)			
259	Other Current and Accrued Liabilities			(354,035,758)	C,D,K,L	(354,035,758)			
260	Current Deferred Income Tax Credits					-			
262	Current Long Term Lease Obligations	(1,361,609)				(1,361,609)			
263	Deferred Revenues					-			
Deferred Credits							**(319)**	**Future income taxes & Asset retirement obligations & Deferred credits and other liabilities**	**(17)**
270	Unamortized Debt Premium					-			
271	Unearned Finance Charges on Customers Accounts Receivable					-			
276	Accumulated Deferred Income Taxes	(201,961,691)				(201,961,691)			
278	Contributions and Grants					-			
279	Other Long Term Liabilities and Deferred Credits	(71,250,120)		(45,579,197)	H	(116,829,317)			
290	Insurance Provisions					-			
Net Income		(145,162,919)		145,162,919	B	-	-		
		-	(0)	-	-	(0)			

GENERAL ACCOUNT #	USOA GENERAL ACCOUNT NAME	OEB - CURRENT BALANCE - $ (UGL Non-Cons)	UGL - Consolidation Entries (HTLP) - $	Reclassification Entries - $	Foot Notes	Balance - UGL - Cons - $	Annual Report Line Item - TOTAL ($millions)	Annual Report Line Item - Description	Balance Assigned to Unregulated Storage

Foot Notes

A - Reclass of Unamortized Debt Premium to LTD $9,762,011
B - Reclass Net Income to Retained Earnings ($145,162,919)
C - Reclass Customer Deferrals (gas related) to Current Liabilities ($100,151,935)
D - Reclass Customer Deferrals (S&T) to Current Liabilities ($7,481,369)
E - Reclass Income Taxes Receivable to Current Assets $1,368,233
F - Reclass Balancing Gas to Non-current Assets $129,618,046
G - Reclass Deferral Pension Assets to Non-current Assets $92,871,272
H - Reclass Deferral Pension Liabilities to Other Long Term Liabilites & Deferred Credits ($45,579,197)
I - Reclass Rate Hearing Costs to Non-current Assets $1,305,666
J - Reclass Regulatory Deferrals (Other) to Non-current Assets ($576,000)
K - Reclass Cash (Bank Indebtedness) to Current Liabilities ($9,402,453)
L - Reclass Commercial Paper to Current Liabilites ($237,000,000)
M - Reclass Misc PPE and Assets Held for Sale to Non-current Assets $517,518

UNION GAS LIMITED
Continuity of Property, Plant and Equipment
Calendar Year Ending December 31, 2007

Line No.	Particulars	O.E.B. No.	Balance Dec. 31/06	Additions: Capital Additions	Additions: Transfers	Additions: Net Salvage	Additions: Net Additions	Retirements	Balance Dec. 31/07	Accumulated Deprciation Dec. 31/07	Net Book Value
			(a)	(b)	(c)	(g)	(h)	(d)	(e)	(h)	(i)
	Gas Plant in Service:										
	Intangible plant:										
1	Franchises and consents	401	2,101,802	0			0		2,101,802	982,542	1,119,260
2	Other intangible plant	402	9,370,350	0			0		9,370,350	7,937,330	1,433,021
3			11,472,152	0	0	0	0	0	11,472,152	8,919,871	2,552,281
	Local Storage Plant										
4	Land	440	7,303	0			0		7,303		7,303
5	Structures and improvements	442	2,450,214	128,007			128,007		2,578,221	2,290,980	287,241
6	Gas holders - storage	443	4,472,857	0			0		4,472,857	4,274,058	198,799
7	Gas holders - equipment	443	7,572,444	90,221			90,221		7,662,665	6,247,314	1,415,351
8			14,502,817	218,229	0	0	218,229	0	14,721,046	12,812,352	1,908,694
	Underground storage plant:										
9	Land	450	4,572,799	294,620	-1,053,388		-758,768		3,814,031		3,814,031
10	Land rights	451	51,293,607	5,659	-19,316,259		-19,310,599		31,983,008	8,142,055	23,840,953
11	Structures and improvements	452	62,161,716	700,163	-11,180,679		-10,480,516		51,681,200	19,795,131	31,886,069
12	Wells	453/4/5	137,008,614	425,723	-51,588,159		-51,162,436	-2,777	85,843,401	30,257,645	55,585,756
13	Compressor equipment	456	275,237,195	2,196,332	-54,646,017		-52,449,686	-2,364,972	220,422,537	102,779,416	117,643,122
14	Measuring & regulating equipment	457	60,605,409	248,669	-13,455,711		-13,207,042		47,398,367	29,219,601	18,178,766
15	Base pressure gas	458	48,544,151	88,082	-18,282,582		-18,194,499	0	30,349,652		30,349,652
16	Other equipment	459	0				0		0		0
17			639,423,492	3,959,247	-169,522,795	0	-165,563,548	-2,367,749	471,492,196	190,193,847	281,298,348

UNION GAS LIMITED
Continuity of Property, Plant and Equipment
Calendar Year Ending December 31, 2007

Line No.	Particulars	O.E.B. No.	Actual Balance Dec. 31/06	Additions: Capital Additions	Additions: Transfers	Additions: Net Salvage	Additions: Net Additions	Retirements	Balance Dec. 31/07	Accumulated Deprciation Dec. 31/07	Net Book Value
			(a)	(b)	(c)	(g)	(h)	(d)	(e)	(h)	(i)
	Gas Plant in Service: (Cont'd)										
	Transmission plant:										
1	Land	460	22,802,507	1,546,099			1,546,099		24,348,606		24,348,606
2	Land rights	461	31,925,310	2,283,335			2,283,335		34,208,645	6,892,047	27,316,598
3	Structures & improvements	462/3/4	44,339,897	151,094			151,094	-51,751	44,439,239	22,011,572	22,427,667
4	Mains	465	902,150,811	82,270,647			82,270,647	-43,434	984,378,023	330,533,905	653,844,118
5	Compressor equipment	466	140,582,333	6,739,398			6,739,398	-447,382	146,874,349	68,078,406	78,795,943
6	Measuring & regulating equipment	467	124,021,541	6,419,221			6,419,221	-74,523	130,366,239	51,355,214	79,011,025
7			1,265,822,399	99,409,794	0	0	99,409,794	-617,091	1,364,615,102	478,871,145	885,743,957
	Distribution plant - Southern Operations										
8	Land	470	4,285,056	62,131			62,131	-183,881	4,163,305		4,163,305
9	Land rights	471	4,468,662	160,443			160,443	0	4,629,105	907,620	3,721,485
10	Structures & improvements	472	62,611,363	4,613,532			4,613,532	-6,796,078	60,428,816	38,889,347	21,539,469
11	Services - metallic	473	110,969,743	2,507,796			2,507,796	-2,056,913	111,420,626	95,320,172	16,100,454
12	Services - plastic	473	657,235,723	24,700,222			24,700,222	-1,938,023	679,997,922	229,092,520	450,905,402
13	Regulators	474	61,197,011	3,446,180			3,446,180	0	64,643,191	24,512,874	40,130,317
14	House regulators & meter installations	474	49,549,354	441,227			441,227	-446,492	49,544,090	20,418,602	29,125,488
15	Mains - metallic	475	366,540,107	10,344,519			10,344,519	-895,627	375,988,998	192,872,294	183,116,704
16	Mains - plastic	475	436,161,348	12,935,581			12,935,581	-411,560	448,685,368	124,968,992	323,716,376
17	Measuring & regulating equipment	477	23,059,416	784,853			784,853	-84,284	23,759,985	12,432,390	11,327,595
18	Meters	478	164,399,601	7,278,378			7,278,378	-3,685,728	167,992,252	58,897,417	109,094,835
19	Other distribution equipment	479	0				0		0		0
20			1,940,477,382	67,274,863	0	0	67,274,863	-16,498,587	1,991,253,658	798,312,228	1,192,941,430
	Distribution plant - Northern & Eastern Operations										
21	Land	470	3,219,814	52,355			52,355	-10,859	3,261,310		3,261,310
22	Land rights	471	8,507,323	103,605			103,605	0	8,610,928	2,605,636	6,005,292
23	Structures & improvements	472	43,366,501	55,921			55,921	-1,802,299	41,620,123	16,992,938	24,627,185
24	Services - metallic	473	88,576,442	2,098,296			2,098,296	-333,737	90,341,002	54,683,163	35,657,839
25	Services - plastic	473	314,519,607	11,299,682			11,299,682	-284,748	325,534,542	122,574,424	202,960,118
26	Regulators	474	22,376,703	844,628			844,628	0	23,221,331	8,817,097	14,404,234
27	House regulators & meter installations	474	24,568,191	1,374,902	19,736		1,394,639	-56,748	25,906,082	7,218,712	18,687,370
28	Mains - metallic	475	315,567,192	14,168,185			14,168,185	-138,847	329,596,529	123,417,386	206,179,143
29	Mains - plastic	475	178,813,723	4,676,667			4,676,667	-40,806	183,449,585	58,333,522	125,116,063
30	Compressor equipment	476	1,340,505	0			0	0	1,340,505	1,096,545	243,960
31	Measuring & regulating equipment	477	83,608,002	4,859,792	-19,736		4,840,056	-171,427	88,276,630	38,981,412	49,295,218
32	Meters	478	48,457,526	1,931,612			1,931,612	-1,292,988	49,096,150	17,377,990	31,718,160
33	Other distribution equipment	479	0				0		0		0
34			1,132,921,529	41,465,647	0	0	41,465,647	-4,132,461	1,170,254,716	452,098,824	718,155,892

UNION GAS LIMITED
Continuity of Property, Plant and Equipment
Calendar Year Ending December 31, 2007

Line No.	Particulars	O.E.B. No.	Actual Balance Dec. 31/06 (a)	Additions: Capital Additions (b)	Additions: Transfers (c)	Additions: Net Salvage (g)	Additions: Net Additions (h)	Retirements (d)	Balance Dec. 31/07 (e)	Accumulated Deprciation Dec. 31/07 (h)	Net Book Value (i)
	Gas Plant in Service: (Cont'd)										
	General plant:										
1	Land	480	639,517	0	-18,672		-18,672	0	620,845		620,845
2	Structures & improvements	482	38,603,549	3,716,871	-1,127,113		2,589,758	0	41,193,307	17,166,729	24,026,578
3	Office furniture & equipment	483	18,128,601	911,613	-529,312		382,301	-2,223,050	16,287,851	10,246,892	6,040,959
4	Office equipment - computers	483	63,754,454	30,957,329	-1,861,410		29,095,919	-10,921,383	81,928,990	34,193,749	47,735,241
5	Transportation equipment	484	47,434,576	6,429,329	-2,134,496		4,294,834	-4,298,147	47,431,262	15,611,541	31,819,721
6	Heavy work equipment	485	15,506,947	918,514	-697,797		220,718	-2,075,429	13,652,235	2,676,831	10,975,404
7	Tools & work equipment	486	32,191,005	2,290,669	-939,890		1,350,779	-1,165,814	32,375,970	16,196,333	16,179,637
8	Communication equipment	488	19,100,830	531,037	-557,697		-26,660	-1,580,203	17,493,967	9,254,411	8,239,556
9	Communication structures		3,360,613	0	-98,121		-98,121	0	3,262,492	2,243,775	1,018,717
10	Other general equipment	489	0				0		0		0
11			238,720,092	45,755,363	-7,964,508	0	37,790,855	-22,264,028	254,246,919	107,590,261	146,656,658
	Undistributed plant:										
12	Contributions in aid of construction	496		0			0		0		0
13	Contributions in aid of construction	496	0	0	0		0		0		0
14	Oil wells and equipment	496	0				0		0		0
15	Total gas plant in service	100	5,243,339,865	258,083,143	-177,487,304	0	80,595,839	-45,879,914	5,278,055,790	2,048,798,529	3,229,257,261
16	ARO (Asset Retirement Obligation)		19,816,661				0		19,816,661	-50,639,384	70,456,045
	Gas plant held for future use -										
17	Ontario exploration and development	102	0				0		0		
18	Gas plant under construction	115	49,342,483	84,653,866	-711,423		83,942,443		133,284,926		133,284,926
19	Total property plant and equipment		5,312,499,008	342,737,009	-178,198,727	0	164,538,283	-45,879,914	5,431,157,377	1,998,159,145	3,432,998,232

UNREGULATED

UNION GAS LIMITED
Continuity of Property, Plant and Equipment
Calendar Year Ending December 31, 2007

Line No.	Particulars	O.E.B. No.	Balance Dec. 31/06	Additions: Capital Additions	Additions: Transfers	Additions: Net Salvage	Additions: Net Additions	Retirements	Balance Dec. 31/07	Accumulated Deprciation Dec. 31/07	Net Book Value
			(a)	(b)	(c)	(g)	(h)	(d)	(e)	(h)	(i)
	Gas Plant in Service:										
	Underground storage plant:										
1	Land	450	0	177,995	1,053,388		1,231,383		1,231,383		1,231,383
2	Land rights	451	0	3,419	19,316,259		19,319,678		19,319,678	4,918,161	14,401,517
3	Structures and improvements	452	0	378,363	11,180,679		11,559,042		11,559,042	4,221,431	7,337,611
4	Wells	453/4/5	0	257,201	51,588,159		51,845,360	-1,678	51,843,682	15,107,622	36,736,060
5	Compressor equipment	456	0	4,611,524	54,646,017		59,257,541	-104,937	59,152,604	23,307,925	35,844,679
6	Measuring & regulating equipment	457	0	59,111	13,455,711		13,514,822		13,514,822	6,831,392	6,683,430
7	Base pressure gas	458	0	53,215	18,282,582		18,335,797		18,335,797		18,335,797
8	Other equipment	459	0				0		0		0
9			0	5,540,828	169,522,795	0	175,063,623	-106,615	174,957,008	54,386,531	120,570,477
	General plant:										
10	Land	480	0	0	18,672		18,672	0	18,672		18,672
11	Structures & improvements	482	0	111,797	1,127,113		1,238,910	0	1,238,910	516,298	722,612
12	Office furniture & equipment	483	0	27,419	529,312		556,732	-66,866	489,866	308,181	181,685
13	Office equipment - computers	483	0	931,143	1,861,410		2,792,553	-328,496	2,464,057	1,018,754	1,445,303
14	Transportation equipment	484	0	302,952	2,134,496		2,437,448	-202,531	2,234,917	468,037	1,766,880
15	Heavy work equipment	485	0	43,280	697,797		741,076	-97,795	643,281	80,507	562,774
16	Tools & work equipment	486	0	68,899	939,890		1,008,790	-35,066	973,724	494,016	479,708
17	Communication equipment	488	0	15,972	557,697		573,670	-47,530	526,140	280,063	246,077
18	Communication structures		0	0	98,121		98,121	0	98,121	65,750	32,371
19	Other general equipment	489	0				0		0		0
20			0	1,501,463	7,964,508	0	9,465,971	-778,283	8,687,688	3,231,606	5,456,082
	Undistributed plant:										
21	Contributions in aid of construction	496		0			0		0		0
22	Contributions in aid of construction	496	0	0	0		0		0		0
23	Oil wells and equipment	496	0				0		0		0
24	Total gas plant in service	100	0	7,042,291	177,487,304	0	184,529,594	-884,898	183,644,696	57,618,137	126,026,559
25	ARO (Asset Retirement Obligation)		0				0		0		0
	Gas plant held for future use -										
26	Ontario exploration and development	102	0				0		0		0
27	Gas plant under construction	115	0	22,965,904	711,423		23,677,327		23,677,327		23,677,327
28	Total property plant and equipment		0	30,008,195	178,198,727	0	208,206,921	-884,898	207,322,023	57,618,137	149,703,886

TOTAL REGULATED AND UNREGULATED

UNION GAS LIMITED
Continuity of Property, Plant and Equipment
Calendar Year Ending December 31, 2007

Line No.	Particulars	O.E.B. No.	Balance Dec. 31/06 (a)	Additions: Capital Additions (b)	Additions: Transfers (c)	Additions: Net Salvage (g)	Additions: Net Additions (h)	Retirements (d)	Balance Dec. 31/07 (e)	Accumulated Deprciation Dec. 31/07 (h)	Net Book Value (i)
	Gas Plant in Service:										
	Intangible plant:										
1	Franchises and consents	401	2,101,802	0	0	0	0	0	2,101,802	982,542	1,119,260
2	Other intangible plant	402	9,370,350	0	0	0	0	0	9,370,350	7,937,330	1,433,021
3			11,472,152	0	0	0	0	0	11,472,152	8,919,871	2,552,281
	Local Storage Plant										
4	Land	440	7,303	0	0	0	0	0	7,303	0	7,303
5	Structures and improvements	442	2,450,214	128,007	0	0	128,007	0	2,578,221	2,290,980	287,241
6	Gas holders - storage	443	4,472,857	0	0	0	0	0	4,472,857	4,274,058	198,799
7	Gas holders - equipment	443	7,572,444	90,221	0	0	90,221	0	7,662,665	6,247,314	1,415,351
8			14,502,817	218,229	0	0	218,229	0	14,721,046	12,812,352	1,908,694
	Underground storage plant:										
9	Land	450	4,572,799	472,615	0	0	472,615	0	5,045,414	0	5,045,414
10	Land rights	451	51,293,607	9,079	0	0	9,079	0	51,302,686	13,060,216	38,242,470
11	Structures and improvements	452	62,161,716	1,078,526	0	0	1,078,526	0	63,240,242	24,016,562	39,223,680
12	Wells	453/4/5	137,008,614	682,924	0	0	682,924	-4,455	137,687,083	45,365,267	92,321,816
13	Compressor equipment	456	275,237,195	6,807,855	0	0	6,807,855	-2,469,909	279,575,141	126,087,341	153,487,801
14	Measuring & regulating equipment	457	60,605,409	307,780	0	0	307,780	0	60,913,189	36,050,993	24,862,196
15	Base pressure gas	458	48,544,151	141,298	0	0	141,298	0	48,685,449	0	48,685,449
16	Other equipment	459	0	0	0	0	0	0	0	0	0
17			639,423,492	9,500,075	0	0	9,500,075	-2,474,364	646,449,204	244,580,378	401,868,825

UNION GAS LIMITED
Continuity of Property, Plant and Equipment
Calendar Year Ending December 31, 2007

Line No.	Particulars	O.E.B. No.	Actual Balance Dec. 31/06 (a)	Additions: Capital Additions (b)	Additions: Transfers (c)	Additions: Net Salvage (g)	Additions: Net Additions (h)	Retirements (d)	Balance Dec. 31/07 (e)	Accumulated Deprciation Dec. 31/07 (h)	Net Book Value (i)
	Gas Plant in Service: (Cont'd)										
	Transmission plant:										
1	Land	460	22,802,507	1,546,099	0	0	1,546,099	0	24,348,606	0	24,348,606
2	Land rights	461	31,925,310	2,283,335	0	0	2,283,335	0	34,208,645	6,892,047	27,316,598
3	Structures & improvements	462/3/4	44,339,897	151,094	0	0	151,094	-51,751	44,439,239	22,011,572	22,427,667
4	Mains	465	902,150,811	82,270,647	0	0	82,270,647	-43,434	984,378,023	330,533,905	653,844,118
5	Compressor equipment	466	140,582,333	6,739,398	0	0	6,739,398	-447,382	146,874,349	68,078,406	78,795,943
6	Measuring & regulating equipment	467	124,021,541	6,419,221	0	0	6,419,221	-74,523	130,366,239	51,355,214	79,011,025
7			1,265,822,399	99,409,794	0	0	99,409,794	-617,091	1,364,615,102	478,871,145	885,743,957
	Distribution plant - Southern Operations										
8	Land	470	4,285,056	62,131	0	0	62,131	-183,881	4,163,305	0	4,163,305
9	Land rights	471	4,468,662	160,443	0	0	160,443	0	4,629,105	907,620	3,721,485
10	Structures & improvements	472	62,611,363	4,613,532	0	0	4,613,532	-6,796,078	60,428,816	38,889,347	21,539,469
11	Services - metallic	473	110,969,743	2,507,796	0	0	2,507,796	-2,056,913	111,420,626	95,320,172	16,100,454
12	Services - plastic	473	657,235,723	24,700,222	0	0	24,700,222	-1,938,023	679,997,922	229,092,520	450,905,402
13	Regulators	474	61,197,011	3,446,180	0	0	3,446,180	0	64,643,191	24,512,874	40,130,317
14	House regulators & meter installations	474	49,549,354	441,227	0	0	441,227	-446,492	49,544,090	20,418,602	29,125,488
15	Mains - metallic	475	366,540,107	10,344,519	0	0	10,344,519	-895,627	375,988,998	192,872,294	183,116,704
16	Mains - plastic	475	436,161,348	12,935,581	0	0	12,935,581	-411,560	448,685,368	124,968,992	323,716,376
17	Measuring & regulating equipment	477	23,059,416	784,853	0	0	784,853	-84,284	23,759,985	12,432,390	11,327,595
18	Meters	478	164,399,601	7,278,378	0	0	7,278,378	-3,685,728	167,992,252	58,897,417	109,094,835
19	Other distribution equipment	479	0	0	0	0	0	0	0	0	0
20			1,940,477,382	67,274,863	0	0	67,274,863	-16,498,587	1,991,253,658	798,312,228	1,192,941,430
	Distribution plant - Northern & Eastern Operations										
21	Land	470	3,219,814	52,355	0	0	52,355	-10,859	3,261,310	0	3,261,310
22	Land rights	471	8,507,323	103,605	0	0	103,605	0	8,610,928	2,605,636	6,005,292
23	Structures & improvements	472	43,366,501	55,921	0	0	55,921	-1,802,299	41,620,123	16,992,938	24,627,185
24	Services - metallic	473	88,576,442	2,098,296	0	0	2,098,296	-333,737	90,341,002	54,683,163	35,657,839
25	Services - plastic	473	314,519,607	11,299,682	0	0	11,299,682	-284,748	325,534,542	122,574,424	202,960,118
26	Regulators	474	22,376,703	844,628	0	0	844,628	0	23,221,331	8,817,097	14,404,234
27	House regulators & meter installations	474	24,568,191	1,374,902	19,736	0	1,394,639	-56,748	25,906,082	7,218,712	18,687,370
28	Mains - metallic	475	315,567,192	14,168,185	0	0	14,168,185	-138,847	329,596,529	123,417,386	206,179,143
29	Mains - plastic	475	178,813,723	4,676,667	0	0	4,676,667	-40,806	183,449,585	58,333,522	125,116,063
30	Compressor equipment	476	1,340,505	0	0	0	0	0	1,340,505	1,096,545	243,960
31	Measuring & regulating equipment	477	83,608,002	4,859,792	-19,736	0	4,840,056	-171,427	88,276,630	38,981,412	49,295,218
32	Meters	478	48,457,526	1,931,612	0	0	1,931,612	-1,292,988	49,096,150	17,377,990	31,718,160
33	Other distribution equipment	479	0	0	0	0	0	0	0	0	0
34			1,132,921,529	41,465,647	0	0	41,465,647	-4,132,461	1,170,254,716	452,098,824	718,155,892

UNION GAS LIMITED
Continuity of Property, Plant and Equipment
Calendar Year Ending December 31, 2007

Line No.	Particulars	O.E.B. No.	Actual Balance Dec. 31/06 (a)	Additions: Capital Additions (b)	Additions: Transfers (c)	Additions: Net Salvage (g)	Additions: Net Additions (h)	Retirements (d)	Balance Dec. 31/07 (e)	Accumulated Deprciation Dec. 31/07 (h)	Net Book Value (i)
	Gas Plant in Service: (Cont'd)										
	General plant:										
1	Land	480	639,517	0	0	0	0	0	639,517	0	639,517
2	Structures & improvements	482	38,603,549	3,828,668	0	0	3,828,668	0	42,432,217	17,683,027	24,749,190
3	Office furniture & equipment	483	18,128,601	939,033	0	0	939,033	-2,289,916	16,777,717	10,555,073	6,222,644
4	Office equipment - computers	483	63,754,454	31,888,473	0	0	31,888,473	-11,249,879	84,393,047	35,212,503	49,180,544
5	Transportation equipment	484	47,434,576	6,732,282	0	0	6,732,282	-4,500,678	49,666,179	16,079,578	33,586,601
6	Heavy work equipment	485	15,506,947	961,794	0	0	961,794	-2,173,225	14,295,516	2,757,338	11,538,178
7	Tools & work equipment	486	32,191,005	2,359,568	0	0	2,359,568	-1,200,880	33,349,694	16,690,349	16,659,345
8	Communication equipment	488	19,100,830	547,009	0	0	547,009	-1,627,733	18,020,107	9,534,474	8,485,633
9	Communication structures		3,360,613	0	0	0	0	0	3,360,613	2,309,525	1,051,088
10	Other general equipment	489	0	0	0	0	0	0	0	0	0
11			238,720,092	47,256,826	0	0	47,256,826	-23,042,311	262,934,607	110,821,867	152,112,740
	Undistributed plant:										
12	Contributions in aid of construction	496	0	0	0	0	0	0	0	0	0
13	Contributions in aid of construction	496	0	0	0	0	0	0	0	0	0
14	Oil wells and equipment	496	0	0	0	0	0	0	0	0	0
15	Total gas plant in service	100	5,243,339,865	265,125,434	0	0	265,125,434	-46,764,813	5,461,700,486	2,106,416,666	3,355,283,820
16	ARO (Asset Retirement Obligation)		19,816,661	0	0	0	0	0	19,816,661	-50,639,384	70,456,045
	Gas plant held for future use -										
17	Ontario exploration and development	102	0	0	0	0	0	0	0	0	0
18	Gas plant under construction	115	49,342,483	107,619,770	0	0	107,619,770	0	156,962,253	0	156,962,253
19	Total property plant and equipment		5,312,499,008	372,745,204	0	0	372,745,204	-46,764,813	5,638,479,400	2,055,777,282	3,582,702,118

UNION GAS LIMITED
Continuity of Accumulated Depreciation
Calendar Year Ending December 31, 2007

Line No.	Particulars	O.E.B. No.	Balance Dec. 31/06	Transfers	Provisions	Retirements	Net Salvage /(Costs)	Balance Dec. 31/07
			(a)	(b)	(c)	(d)	(e)	(f)
	Gas Plant in Service:							
	Intangible Plant:							
1	Franchises and consents	401	880,710		101,832	0		982,542
2	Intangible Plant - other	402	7,814,623		122,707	0		7,937,330
3			8,695,332	0	224,539	0	0	8,919,871
	Local Storage Plant							
4	Land	440	0		0	0	0	0
5	Structures and improvements	442	2,208,010		82,970	0	0	2,290,980
6	Gas holders - storage	443	4,155,100		119,873		-915	4,274,058
7	Gas holders - equipment	443	5,966,988		280,326	0	0	6,247,314
8			12,330,097	0	483,170	0	-915	12,812,352
	Underground storage plant:							
9	Land rights	451	11,916,267	-4,487,330	713,117			8,142,055
10	Structures & improvements	452	22,707,076	-3,961,111	1,206,887		-157,721	19,795,131
11	Wells and lines	453/4/5	44,097,138	-13,733,345	2,277,500	-2,777	-2,380,871	30,257,645
12	Compressor equipment	456	121,385,934	-21,666,578	7,102,980	-2,364,972	-1,677,948	102,779,416
13	Measuring & regulating equipment	457	34,096,743	-6,251,476	2,032,731		-658,398	29,219,601
14			234,203,159	-50,099,840	13,333,216	-2,367,749	-4,874,939	190,193,847
	Transmission plant:							
15	Land rights	461	6,230,710		661,337	0	0	6,892,047
16	Structures & improvements	462/3/4	20,894,646		1,180,761	-51,751	-12,083	22,011,572
17	Mains	465	308,438,544		22,355,373	-43,434	-216,577	330,533,905
18	Compressor equipment	466	62,868,664		5,059,235	-447,382	597,889	68,078,406
19	Measuring & regulating equipment	467	46,935,172		4,591,698	-74,523	-97,133	51,355,214
20			445,367,736	0	33,848,404	-617,091	272,096	478,871,145

UNION GAS LIMITED
Continuity of Accumulated Depreciation
Calendar Year Ending December 31, 2007

Line No.	Particulars	O.E.B. No.	Balance Dec. 31/06	Transfers	Provisions	Retirements	Net Salvage /(Costs)	Balance Dec. 31/07
			(a)	(b)	(c)	(d)	(e)	(f)
	Distribution plant - Southern Operations							
1	Land rights	470	831,650		75,970			907,620
2	Structures & improvements	471	42,585,897		1,808,768	-6,796,078	1,290,760	38,889,347
3	Services - metallic		93,811,767		4,103,117	-2,056,913	-537,799	95,320,172
4	Services - plastic	472	210,019,757		21,262,035	-1,938,023	-251,248	229,092,520
5	Regulators	473	22,436,508		2,076,366	0	0	24,512,874
6	Regulator & meter installations	474	19,126,004		1,739,089	-446,492	0	20,418,602
7	Mains - metallic		185,411,625		9,430,157	-895,627	-1,073,861	192,872,294
8	Mains - plastic	475	115,195,801		10,352,778	-411,560	-168,026	124,968,992
9	Measuring & regulating equipment	477	11,449,656		1,086,216	-84,284	-19,198	12,432,390
10	Meters	478	56,347,007		6,149,253	-3,685,728	86,885	58,897,417
11			757,215,671	0	58,083,750	-16,314,706	-672,487	798,312,227.87
	Distribution plant - Northern & Eastern Operations							
12	Land rights	471	2,461,845		143,791			2,605,636
13	Structures & improvements	472	17,035,106		1,410,146	-1,802,299	349,985	16,992,938
14	Services - metallic		52,252,140		3,202,627	-333,737	-437,868	54,683,163
15	Services - plastic	473	112,782,338		10,208,876	-284,748	-132,042	122,574,424
16	Regulators	474	8,052,962		761,481	0	2,654	8,817,097
17	Regulator & meter installations	474	6,390,709	8,755	883,304	-56,748	-7,308	7,218,712
18	Mains - metallic		115,611,791		8,129,078	-138,847	-184,636	123,417,386
19	Mains - plastic	475	54,145,711		4,256,608	-40,806	-27,992	58,333,522
20	Compressor Equipment	476	1,051,772		44,773	0		1,096,545
21	Measuring & regulating equipment	477	35,486,491	-8,755	3,979,128	-171,427	-304,024	38,981,412
22	Meters	478	16,856,019		1,790,099	-1,292,988	24,861	17,377,990
23	Other distribution equipment	479	0		0			0
24			422,126,885	0.00	34,809,912	-4,121,601	-716,371	452,098,824

UNION GAS LIMITED
Continuity of Accumulated Depreciation
Calendar Year Ending December 31, 2007

Line No.	Particulars	O.E.B. No.	Balance Dec. 31/06	Transfers	Provisions	Retirements	Net Salvage /(Costs)	Balance Dec. 31/07
			(a)	(b)	(c)	(d)	(e)	(f)
	General plant:							
1	Structures & improvements	482	16,728,963	-488,439	926,205			17,166,729
2	Office furniture & equipment		11,681,424	-341,070	1,129,590	-2,223,051		10,246,892
3	Office equipment - computers		27,943,887	-806,510	17,977,756	-10,921,383		34,193,749
4	Transportation equipment	484	14,900,320	-450,561	4,669,019	-4,298,148	790,912	15,611,541
5	Transportation equipment - aircraft	484	0	0		0		0
6	Heavy work equipment	485	4,252,556	-147,792	647,497	-2,075,430		2,676,831
7	Tools and other equipment	486/89/79	15,706,477	-465,287	2,120,956	-1,165,814		16,196,333
8	Communication structures		2,145,528	-60,961	159,208			2,243,775
9	Communication equipment	488	9,924,835	-291,462	1,201,240	-1,580,203		9,254,411
10			103,283,990	-3,052,082	28,831,470	-22,264,029	790,912	107,590,261
11	Total Gas Plant carried forward		1,983,222,870	-53,151,922	169,614,460	-45,685,175	-5,201,704	2,048,798,529
12	ARO (Asset Retirement Obligation)		-46,947,200	-3,692,184				-50,639,384
	Accumulated Amortization:							
13	Oil wells and equipment	496						0
14	Total		1,936,275,670	-56,844,106	169,614,460	-45,685,175	-5,201,704	1,998,159,145

Non-Regulated

UNION GAS LIMITED
Continuity of Accumulated Depreciation
Calendar Year Ending December 31, 2007

Line No.	Particulars	O.E.B. No.	Balance Dec. 31/06	Transfers	Provisions	Retirements	Net Salvage /(Costs)	Balance Dec. 31/07
			(a)	(b)	(c)	(d)	(e)	(f)
	Gas Plant in Service:							
	Underground storage plant:							
1	Land rights	451	0	4,487,330	430,831			4,918,161
2	Structures & improvements	452	0	3,961,111	260,320			4,221,431
3	Wells and lines	453/4/5	0	13,733,345	1,375,955	-1,678		15,107,622
4	Compressor equipment	456	0	21,666,578	1,746,284	-104,937		23,307,925
5	Measuring & regulating equipment	457	0	6,251,476	579,916			6,831,392
6			0	50,099,840	4,393,306	-106,615	0	54,386,531
	General plant:							
7	Structures & improvements	482	0	488,439	27,859			516,298
8	Office furniture & equipment		0	341,070	33,976	-66,865		308,181
9	Office equipment - computers		0	806,510	540,740	-328,496		1,018,754
10	Transportation equipment	484	0	450,561	220,006	-202,530		468,037
11	Transportation equipment - aircraft	484	0	0				0
12	Heavy work equipment	485	0	147,792	30,510	-97,795		80,507
13	Tools and other equipment	486/89/79	0	465,287	63,795	-35,066		494,016
14	Communication structures		0	60,961	4,789			65,750
15	Communication equipment	488	0	291,462	36,131	-47,530		280,063
16			0	3,052,082	957,806	-778,282	0	3,231,606
17	Total Gas Plant carried forward		0	53,151,922	5,351,112	-884,897	0	57,618,137
	ARO (Asset Retirement Obligation)		0					0
	Accumulated Amortization:							
18	Oil wells and equipment	496						0
19	Total		0	53,151,922	5,351,112	-884,897	0	57,618,137

UNION GAS LIMITED
Continuity of Accumulated Depreciation
Calendar Year Ending December 31, 2007

Line No.	Particulars ($000's)	O.E.B. No.	Balance Dec. 31/06 (a)	Transfers (b)	Provisions (c)	Retirements (d)	Net Salvage /(Costs) (e)	Balance Dec. 31/07 (f)
	Gas Plant in Service:							
	Intangible Plant:							
1	Franchises and consents	401	880,709.77	0	101,832	0	0	982,542
2	Intangible Plant - other	402	7,814,622.60	0	122,707	0	0	7,937,330
3			8,695,332.37	0	224,539	0	0	8,919,871
	Local Storage Plant							
4	Land	440	0.00	0	0	0	0	0
5	Structures and improvements	442	2,208,009.55	0	82,970	0	0	2,290,980
6	Gas holders - storage	443	4,155,099.92	0	119,873	0	-915	4,274,058
7	Gas holders - equipment	443	5,966,987.78	0	280,326	0	0	6,247,314
8			12,330,097.25	0	483,170	0	-915	12,812,352
	Underground storage plant:							
9	Land rights	451	11,916,267.36	0	1,143,949	0	0	13,060,216
10	Structures & improvements	452	22,707,076.31	0	1,467,207	0	-157,721	24,016,562
11	Wells and lines	453/4/5	44,097,137.90	0	3,653,455	-4,455	-2,380,871	45,365,267
12	Compressor equipment	456	121,385,934.11	0	8,849,263	-2,469,909	-1,677,948	126,087,341
13	Measuring & regulating equipment	457	34,096,743.37	0	2,612,648	0	-658,398	36,050,993
14			234,203,159.05	0	17,726,522	-2,474,364	-4,874,939	244,580,378
	Transmission plant:							
15	Land rights	461	6,230,710.47	0	661,337	0	0	6,892,047
16	Structures & improvements	462/3/4	20,894,645.83	0	1,180,761	-51,751	-12,083	22,011,572
17	Mains	465	308,438,543.53	0	22,355,373	-43,434	-216,577	330,533,905
18	Compressor equipment	466	62,868,663.99	0	5,059,235	-447,382	597,889	68,078,406
19	Measuring & regulating equipment	467	46,935,171.77	0	4,591,698	-74,523	-97,133	51,355,214
20			445,367,735.59	0	33,848,404	-617,091	272,096	478,871,145

UNION GAS LIMITED
Continuity of Accumulated Depreciation
Calendar Year Ending December 31, 2007

Line No.	Particulars ($000's)	O.E.B. No.	Balance Dec. 31/06	Transfers	Provisions	Retirements	Net Salvage /(Costs)	Balance Dec. 31/07
			(a)	(b)	(c)	(d)	(e)	(f)
	Distribution plant - Southern Operations							
1	Land rights	470	831,649.86	0	75,970	0	0	907,620
2	Structures & improvements	471	42,585,896.56	0	1,808,768	-6,796,078	1,290,760	38,889,347
3	Services - metallic		93,811,767.24	0	4,103,117	-2,056,913	-537,799	95,320,172
4	Services - plastic	472	210,019,756.56	0	21,262,035	-1,938,023	-251,248	229,092,520
5	Regulators	473	22,436,508.18	0	2,076,366	0	0	24,512,874
6	Regulator & meter installations	474	19,126,003.84	0	1,739,089	-446,492	0	20,418,602
7	Mains - metallic		185,411,624.50	0	9,430,157	-895,627	-1,073,861	192,872,294
8	Mains - plastic	475	115,195,800.63	0	10,352,778	-411,560	-168,026	124,968,992
9	Measuring & regulating equipment	477	11,449,656.15	0	1,086,216	-84,284	-19,198	12,432,390
10	Meters	478	56,347,006.99	0	6,149,253	-3,685,728	86,885	58,897,417
11			757,215,670.51	0	58,083,750	-16,314,706	-672,487	798,312,228
	Distribution plant - Northern & Eastern Operations							
12	Land rights	471	2,461,844.74	0	143,791	0	0	2,605,636
13	Structures & improvements	472	17,035,106.18	0	1,410,146	-1,802,299	349,985	16,992,938
14	Services - metallic		52,252,140.38	0	3,202,627	-333,737	-437,868	54,683,163
15	Services - plastic	473	112,782,338.42	0	10,208,876	-284,748	-132,042	122,574,424
16	Regulators	474	8,052,961.75	0	761,481	0	2,654	8,817,097
17	Regulator & meter installations	474	6,390,708.91	8,755	883,304	-56,748	-7,308	7,218,712
18	Mains - metallic		115,611,790.54	0	8,129,078	-138,847	-184,636	123,417,386
19	Mains - plastic	475	54,145,711.47	0	4,256,608	-40,806	-27,992	58,333,522
20	Compressor Equipment	476	1,051,772.36	0	44,773	0	0	1,096,545
21	Measuring & regulating equipment	477	35,486,490.86	-8,755	3,979,128	-171,427	-304,024	38,981,412
22	Meters	478	16,856,019.26	0	1,790,099	-1,292,988	24,861	17,377,990
23	Other distribution equipment	479	0.00	0	0	0	0	0
24			422,126,884.87	0	34,809,912	-4,121,601	-716,371	452,098,824

UNION GAS LIMITED
Continuity of Accumulated Depreciation
Calendar Year Ending December 31, 2007

Line No.	Particulars ($000's)	O.E.B. No.	Balance Dec. 31/06	Transfers	Provisions	Retirements	Net Salvage /(Costs)	Balance Dec. 31/07
			(a)	(b)	(c)	(d)	(e)	(f)
	General plant:							
1	Structures & improvements	482	16,728,963.10	0	954,064	0	0	17,683,027
2	Office furniture & equipment		11,681,423.72	0	1,163,566	-2,289,916	0	10,555,073
3	Office equipment - computers		27,943,887.00	0	18,518,496	-11,249,879	0	35,212,503
4	Transportation equipment	484	14,900,319.78	0	4,889,025	-4,500,678	790,912	16,079,578
5	Transportation equipment - aircraft	484	0.00	0	0	0	0	0
6	Heavy work equipment	485	4,252,555.66	0	678,007	-2,173,225	0	2,757,338
7	Tools and other equipment	486/89/79	15,706,477.42	0	2,184,751	-1,200,880	0	16,690,349
8	Communication structures		2,145,528.41	0	163,997	0	0	2,309,525
9	Communication equipment	488	9,924,835.04	0	1,237,371	-1,627,733	0	9,534,474
10			103,283,990.13	0	29,789,276	-23,042,311	790,912	110,821,867
11	Total Gas Plant carried forward		1,983,222,869.77	0	174,965,573	-46,570,072	-5,201,704	2,106,416,666
12	ARO (Asset Retirement Obligation)		-46,947,200.00	-3,692,184	0	0	0	-50,639,384
	Accumulated Amortization:							
13	Oil wells and equipment	496						0
14	Total Regulated and Non-Regulated		1,936,275,669.77	-3,692,184	174,965,573	-46,570,072	-5,201,704	2,055,777,282

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers and Exporters ("CME")

References: Exhibit A, Tab 4; Exhibit A, Tab 2, Appendix B, Schedule 1

Using the December 31, 2007 starting point for line item and total storage related costs and their separation between Utility and Non-utility costs to be provided in response to the previous questions, prepare a continuity schedule showing the line item and total additions and deletions for the period January 1, 2008, to December 31, 2008, and the situation at December 13, 2008, in the format of the response to the previous question.

Response:

Please see the attachments, as outlined below.

Attachment 1 – 2008 - OEB Uniform System of Accounts mapped to Union Gas Limited's balance sheet

Attachment 2 – 2008 – Continuity of Property, Plant and Equipment

Attachment 3 – 2008 – Continuity of Accumulated Depreciation

GENERAL ACCOUNT #	USOA GENERAL ACCOUNT NAME	OEB - CURRENT BALANCE - $ (UGL Non-Cons)	UGL - Consolidation Entries (HTLP) - $	Reclassification Entries - $	Foot Notes	Balance - UGL - Cons - $	Annual Report Line Item - TOTAL ($millions)	Annual Report Line Item - Description	Balance Assigned to Unregulated Storage
BALANCE SHEET - ASSETS									
Property, Plant and Equipment							**3,827**	**Property, plant and equipment, net**	**235**
100	Utility Plant in Service	5,857,027,713	35,947,181	(410,000)	M	5,892,564,894			
101	Utility Plant Leased to Others					-			
102	Utility Plant Held for Future Use					-			
103	Retirement Work In Progress					-			
104	Utility Plant Acquisition Adjustments					-			
105	Accumulated Depreciation - Utility Plant	(2,190,378,714)	(375,200)			(2,190,753,914)			
106	Accumulated Amortization - Utility Plant					-			
108	Accumulated Amortization - Utility Plant - Acquisition Adjustments					-			
110	Other Utility Plant	521,100		(521,100)	N	-			
111	Accumulated Depreciation and Amortization - Other Utility Plant					-			
115	Construction Work In Progress - Utility Plant	125,670,780				125,670,780			
116	Other Utility Plant Under Construction					-			
Long Term Investments							-		
120	Investment in Related Parties	36,259,564	(36,259,564)			-			
121	Portfolio Investments					-			
123	Miscellaneous Special Funds					-			
Current Assets							**786**	**Total Current Assets**	
130	Cash	(207,163,979)		207,163,979	J,K	-			
131	Special Deposits					-			
132	Short-term Investments					-			
140	Accounts Receivable-Customers	483,139,777		23,017,929	L	506,157,706			
141	Accounts Receivable-Related Parties	2,765,178				2,765,178			
142	Accounts Receivable-Others	5,881,984		1,076,801	E	6,958,785			
145	Allowance for Doubtful Accounts	(7,079,530)				(7,079,530)			
147	Interest and Dividends Receivable					-			
150	Materials and Supplies	29,033,609				29,033,609			
151	Materials and Supplies-Other					-			
152	Gas in Storage-Available for Sale	179,969,787				179,969,787			
153	Transmission Line Pack Gas	18,973,115				18,973,115			
160	Prepayments	4,931,773				4,931,773			
162	Other Current Assets					-			
163	Current Deferred Income Tax Debits	18,529,018				18,529,018			
Deferred Charges									
170	Unamortized Debt Discount and Expense	11,857,862		(11,857,862)	G	-			
171	Extraordinary Plant Losses					-			
172	Preliminary Survey and Investigation Charges					-			
177	Share Capital Expense					-			
179	Other Deferred Charges - See Schedule 1	143,277,106		(117,615,477)	A,B,C,D,F,H,I	25,661,629			
Other Assets							**252**	**Investments and other assets**	
180	Intangible Assets	8,832,535	3,000,141			11,832,676			
181	Unamortized Deferred Foreign Currency Translation Gains and Losses					-			
182	Deferred Development Costs					-			
183	Non-Current Deferred Income Tax Debits					-			
	Other Assets			240,059,249	F,I,M,N	240,059,249			

GENERAL ACCOUNT #	USOA GENERAL ACCOUNT NAME	OEB - CURRENT BALANCE - $ (UGL Non-Cons)	UGL - Consolidation Entries (HTLP) - $	Reclassification Entries - $	Foot Notes	Balance - UGL - Cons - $	Annual Report Line Item - TOTAL ($millions)	Annual Report Line Item - Description	Balance Assigned to Unregulated Storage
BALANCE SHEET - LIABILITIES and SHAREHOLDERS' EQUITY									
Shareholders' Equity							**(1,430)**	**Shareholder's Equity and Non-controlling Interst**	
200	Preference Shares	(104,500,000)				(104,500,000)			
205	Common Shares	(627,062,581)				(627,062,581)			
210	Contributed Surplus	(158,557)				(158,557)			
212	Retained Earnings	(509,487,279)		(180,640,970)	O	(690,128,249)			
215	Appropriations of Retained Earnings					-			
216	Appraisal Increase Credits					-			
	Non-controlling Interest		(9,592,176)			(9,592,176)			
Long Term Debt							**(2,205)**	**Long Term Debt and obligations under capital lease & Mandatorily redeemable preference shares**	
220	Long-Term Debt	(2,216,858,600)				(2,216,858,600)			
225	Long Term Lease Obligations					-			
248	Long Term Advances from Related Parties					-			
249	Other Long Term Debt			11,857,862	G	11,857,862			
Current Liabilities							**(914)**	**Total current liabilites**	
250	Loans and Notes Payable					-			
251	Accounts Payable and Accrued Liabilities	(355,439,184)				(355,439,184)			
252	Accounts Payable and Accrued Liabilities-Related Parties	(123,555,347)	5,954,511			(117,600,836)			
253	Dividends Payable					-			
254	Customers Security Deposits	(68,807,538)				(68,807,538)			
255	Customers Advances for Construction					-			
256	Taxes Payable - Current	(3,964,555)				(3,964,555)			
257	Interest Payable and Accrued	(37,486,141)				(37,486,141)			
258	Current Portion of Long Term Debt	(28,000,000)				(28,000,000)			
259	Other Current and Accrued Liabilities		1,325,107	(302,443,801)	A,B,C,D,E,J,K,L	(301,118,694)			
260	Current Deferred Income Tax Credits					-			
262	Current Long Term Lease Obligations	(1,452,157)				(1,452,157)			
263	Deferred Revenues					-			
Deferred Credits							**(316)**	**Future income taxes & Asset retirement obligations & Deferred credits and other liabilities**	**(27)**
270	Unamortized Debt Premium					-			
271	Unearned Finance Charges on Customers Accounts Receivable					-			
276	Accumulated Deferred Income Taxes	(117,284,397)				(117,284,397)			
278	Contributions and Grants					-			
279	Other Long Term Liabilities and Deferred Credits	(147,351,372)		(50,327,580)	H	(197,678,952)			
290	Insurance Provisions					-			
Net Income		(180,640,970)		180,640,970	O	-			
		-	-	-	-	-	-	-	

A - Reclass Customer Deferrals (Gas Related) to Current Liabilites ($18,565,350)
B - Reclass Customer Deferrals (Other) to Current Liabilites ($3,163,845)
C - Reclass Customer Deferrals (Earnings sharing) to Current Liabilites ($16,813,000)
D - Reclass Customer Deferrals (S&T) to Current Liabilities ($32,642,897)
E - Reclass credit balance in Trade Receivable Misc to Current Liabilites ($1,076,801)
F - Reclass Balancing Gas to Non-current assets $129,618,046
G - Reclass Deferred Financing costs to LTD $11,857,862
H - Reclass Deferral Pension Liabilities to Other Long Term Liabilites & Deferred Credits ($50,327,580)
I - Reclass Deferral Pension Assets to Non-current Assets $109,510,103
J - Reclass Cash (Bank Indebtedness) to Current Liabilities ($1,632,981)
K - Reclass Commercial Paper to Current Liabilites ($205,531,000)
L - Reclass ABC Broker Payable to Current Liabilities ($23,017,929)
M - Reclass Misc PPE to Non-current Assets $410,000
N - Reclass Assets Held for Sale to Non-current Assets $521,000

GENERAL ACCOUNT #	USOA GENERAL ACCOUNT NAME	OEB - CURRENT BALANCE - $ (UGL Non-Cons)	UGL - Consolidation Entries (HTLP) - $	Reclassification Entries - $	Foot Notes	Balance - UGL - Cons - $	Annual Report Line Item - TOTAL ($millions)	Annual Report Line Item - Description	Balance Assigned to Unregulated Storage

O - Reclass Net Income to Retained Earnings ($180,640,970)

UNION GAS LIMITED
Continuity of Property, Plant and Equipment
Calendar Year Ending December 31, 2008

Line No.	Particulars	O.E.B. No.	Balance Dec. 31/07 (a)	Additions: Capital Additions (b)	Additions: Transfers (c)	Additions: Net Salvage (g)	Additions: Net Additions (h)	Retirements (d)	Balance Dec. 31/08 (e)	Accumulated Deprciation Dec. 31/08 (h)	Net Book Value (i)
	Gas Plant in Service:										
	Intangible plant:										
1	Franchises and consents	401	2,101,802				0		2,101,802	1,083,938	1,017,864
2	Other intangible plant	402	9,370,350				0		9,370,350	8,060,037	1,310,314
3			11,472,152	0	0	0	0	0	11,472,152	9,143,974	2,328,178
	Local Storage Plant										
4	Land	440	7,303				0		7,303		7,303
5	Structures and improvements	442	2,578,221	24,940			24,940		2,603,160	2,376,472	226,688
6	Gas holders - storage	443	4,472,857	0			0		4,472,857	4,393,931	78,926
7	Gas holders - equipment	443	7,662,665	0			0		7,662,665	6,525,048	1,137,617
8			14,721,046	24,940	0	0	24,940	0	14,745,985	13,295,451	1,450,534
	Underground storage plant:										
9	Land	450	3,814,031	70			70		3,814,101		3,814,101
10	Land rights	451	31,983,008	29,416			29,416		32,012,424	8,855,615	23,156,809
11	Structures and improvements	452	51,681,200	2,122,839			2,122,839		53,804,038	20,850,348	32,953,690
12	Wells	453/4/5	85,843,401	1,693,332			1,693,332	-638,758	86,897,975	31,128,920	55,769,055
13	Compressor equipment	456	220,422,537	1,796,098			1,796,098	-749,777	221,468,859	108,337,805	113,131,054
14	Measuring & regulating equipment	457	47,398,367	56,412			56,412		47,454,779	31,067,510	16,387,269
15	Base pressure gas	458	30,349,652	0	0		0	0	30,349,652		30,349,652
16	Other equipment	459	0				0		0		0
17			471,492,196	5,698,167	0	0	5,698,167	-1,388,535	475,801,827	200,240,198	275,561,629

UNION GAS LIMITED
Continuity of Property, Plant and Equipment
Calendar Year Ending December 31, 2008

Line No.	Particulars	O.E.B. No.	Actual Balance Dec. 31/07	Additions: Capital Additions	Additions: Transfers	Additions: Net Salvage	Additions: Net Additions	Retirements	Balance Dec. 31/08	Accumulated Deprciation Dec. 31/08	Net Book Value
			(a)	(b)	(c)	(g)	(h)	(d)	(e)	(h)	(i)
	Gas Plant in Service: (Cont'd)										
	Transmission plant:										
1	Land	460	24,348,606	-487,293			-487,293		23,861,313		23,861,313
2	Land rights	461	34,208,645	73,410			73,410		34,282,055	7,576,954	26,705,101
3	Structures & improvements	462/3/4	44,439,239	7,627,951			7,627,951	-2,932	52,064,258	23,291,038	28,773,220
4	Mains	465	984,378,023	14,844,526			14,844,526	-222,977	998,999,573	353,653,736	645,345,837
5	Compressor equipment	466	146,874,349	152,104,386			152,104,386	0	298,978,736	76,287,393	222,691,343
6	Measuring & regulating equipment	467	130,366,239	6,175,500			6,175,500	-82,072	136,459,667	56,016,697	80,442,970
7			1,364,615,102	180,338,480	0	0	180,338,480	-307,981	1,544,645,601	516,825,817	1,027,819,784
	Distribution plant - Southern Operations										
8	Land	470	4,163,305	1,356,323			1,356,323		5,519,629		5,519,629
9	Land rights	471	4,629,105	419,269			419,269		5,048,374	988,427	4,059,947
10	Structures & improvements	472	60,428,816	16,759,745			16,759,745	-6,674	77,181,887	40,899,131	36,282,756
11	Services - metallic	473	111,420,626	1,150,125	-49,050		1,101,074	-1,660,665	110,861,036	96,994,885	13,866,151
12	Services - plastic	473	679,997,922	33,277,493	-2,079		33,275,414	-2,106,022	711,167,315	248,777,678	462,389,637
13	Regulators	474	64,643,191	3,363,169			3,363,169	0	68,006,360	26,701,594	41,304,766
14	House regulators & meter installations	474	49,544,090	8,660,773			8,660,773	-18,916	58,185,946	22,290,143	35,895,803
15	Mains - metallic	475	375,988,998	10,488,164	49,050		10,537,215	-430,420	386,095,793	200,225,155	185,870,638
16	Mains - plastic	475	448,685,368	22,505,915	2,079		22,507,994	-101,798	471,091,564	135,379,272	335,712,292
17	Measuring & regulating equipment	477	23,759,985	4,150,779			4,150,779	-47,002	27,863,763	13,474,284	14,389,479
18	Meters	478	167,992,252	8,983,686			8,983,686	-5,743,810	171,232,128	59,500,293	111,731,835
19	Other distribution equipment	479	0				0		0		0
20			1,991,253,658	111,115,442	0	0	111,115,442	-10,115,307	2,092,253,794	845,230,861	1,247,022,933
	Distribution plant - Northern & Eastern Operations										
21	Land	470	3,261,310	81,234			81,234	-174	3,342,370		3,342,370
22	Land rights	471	8,610,928	178,860			178,860	0	8,789,788	2,751,802	6,037,986
23	Structures & improvements	472	41,620,123	270,248			270,248	-21,054	41,869,317	18,326,853	23,542,464
24	Services - metallic	473	90,341,002	2,035,532			2,035,532	-420,365	91,956,168	56,937,474	35,018,694
25	Services - plastic	473	325,534,542	11,188,536			11,188,536	-280,320	336,442,758	132,774,393	203,668,365
26	Regulators	474	23,221,331	1,021,387			1,021,387	0	24,242,718	9,612,252	14,630,466
27	House regulators & meter installations	474	25,906,082	2,397,853			2,397,853	0	28,303,934	8,166,682	20,137,252
28	Mains - metallic	475	329,596,529	9,844,334			9,844,334	-540,357	338,900,506	131,140,421	207,760,085
29	Mains - plastic	475	183,449,585	4,426,084			4,426,084	-48,300	187,827,369	62,631,145	125,196,224
30	Compressor equipment	476	1,340,505	0			0	0	1,340,505	1,141,318	199,187
31	Measuring & regulating equipment	477	88,276,630	6,322,342			6,322,342	-205,887	94,393,086	42,947,471	51,445,615
32	Meters	478	49,096,150	2,321,841			2,321,841	-2,001,876	49,416,115	17,195,462	32,220,653
33	Other distribution equipment	479	0				0		0		0
34			1,170,254,716	40,088,252	0	0	40,088,252	-3,518,333	1,206,824,636	483,625,275	723,199,361

UNION GAS LIMITED
Continuity of Property, Plant and Equipment
Calendar Year Ending December 31, 2008

Line No.	Particulars	O.E.B. No.	Actual Balance Dec. 31/07	Additions: Capital Additions	Additions: Transfers	Additions: Net Salvage	Additions: Net Additions	Retirements	Balance Dec. 31/08	Accumulated Deprciation Dec. 31/08	Net Book Value
			(a)	(b)	(c)	(g)	(h)	(d)	(e)	(h)	(i)
	Gas Plant in Service: (Cont'd)										
	General plant:										
1	Land	480	620,845				0	0	620,845		620,845
2	Structures & improvements	482	41,193,307	1,106,652	-11,779		1,094,873	-703,218	41,584,962	17,423,016	24,161,946
3	Office furniture & equipment	483	16,287,851	1,133,879	5,138		1,139,017	-1,309,848	16,117,021	10,055,470	6,061,551
4	Office equipment - computers	483	81,928,990	21,184,077	-272,109		20,911,968	-11,864,463	90,976,494	44,288,967	46,687,527
5	Transportation equipment	484	47,431,262	6,204,277	68,426		6,272,703	-7,724,881	45,979,084	13,250,831	32,728,253
6	Heavy work equipment	485	13,652,235	938,141	-10,503		927,638	-704,725	13,875,148	2,586,494	11,288,654
7	Tools & work equipment	486	32,375,970	2,346,094	-29,352		2,316,742	-1,340,790	33,351,921	17,085,665	16,266,256
8	Communication equipment	488	17,493,967	226,116	86,119		312,235	-3,175,676	14,630,526	7,243,960	7,386,566
9	Communication structures		3,262,492		2,557		2,557		3,265,049	2,403,108	861,941
10	Other general equipment	489	0				0		0		0
11			254,246,919	33,139,235	-161,503	0	32,977,732	-26,823,601	260,401,050	114,337,511	146,063,539
	Undistributed plant:										
12	Contributions in aid of construction	496	0	0			0		0		0
13	Contributions in aid of construction	496	0	0	0		0		0		0
14	Oil wells and equipment	496	0				0		0		0
15	Total gas plant in service	100	5,278,055,790	370,404,515	-161,503	0	370,243,012	-42,153,756	5,606,145,046	2,182,699,088	3,423,445,958
16	ARO (Asset Retirement Obligation)		19,816,661				0		19,816,661	-54,537,338	74,353,999
	Gas plant held for future use -										
17	Ontario exploration and development	102	0				0		0		0
18	Gas plant under construction	115	133,284,926	-74,199,271			-74,199,271		59,085,655		59,085,655
19	Total property plant and equipment		5,431,157,377	296,205,244	-161,503	0	296,043,741	-42,153,756	5,685,047,362	2,128,161,750	3,556,885,612

UNION GAS LIMITED
Continuity of Property, Plant and Equipment
Calendar Year Ending December 31, 2008

Line No.	Particulars	O.E.B. No.	Balance Dec. 31/07 (a)	Additions: Capital Additions (b)	Additions: Transfers (c)	Additions: Net Salvage (g)	Additions: Net Additions (h)	Retirements (d)	Balance Dec. 31/08 (e)	Accumulated Deprciation Dec. 31/08 (h)	Net Book Value (i)
	Gas Plant in Service:										
	Underground storage plant:										
1	Land	450	1,231,383	0	0		0		1,231,383		1,231,383
2	Land rights	451	19,319,678	268,375	0		268,375		19,588,053	5,351,971	14,236,082
3	Structures and improvements	452	11,559,042	549,615	0		549,615		12,108,657	4,455,766	7,652,891
4	Wells	453/4/5	51,843,682	28,014,617	0		28,014,617	-383,658	79,474,641	16,219,443	63,255,198
5	Compressor equipment	456	59,152,604	11,465,023	0		11,465,023	-185,807	70,431,820	25,057,715	45,374,105
6	Measuring & regulating equipment	457	13,514,822	7,121,641	0		7,121,641		20,636,463	7,430,315	13,206,148
7	Base pressure gas	458	18,335,797	0	0		0	0	18,335,797		18,335,797
8	Other equipment	459	0				0		0		0
9			174,957,008	47,419,271	0	0	47,419,271	-569,465	221,806,815	58,515,211	163,291,604
	General plant:										
10	Land	480	18,672	0	0		0	0	18,672		18,672
11	Structures & improvements	482	1,238,910	0	11,779		11,779	0	1,250,689	524,007	726,682
12	Office furniture & equipment	483	489,866	0	-5,138		-5,138	0	484,728	302,423	182,305
13	Office equipment - computers	483	2,464,057	0	272,109		272,109	0	2,736,166	1,322,373	1,413,793
14	Transportation equipment	484	2,234,917	0	-68,426		-68,426	0	2,166,491	622,035	1,544,456
15	Heavy work equipment	485	643,281	0	10,503		10,503	0	653,784	121,873	531,911
16	Tools & work equipment	486	973,724	0	29,352		29,352	0	1,003,076	520,763	482,313
17	Communication equipment	488	526,140	0	-86,119		-86,119	0	440,021	217,866	222,155
18	Communication structures		98,121	0	-2,557		-2,557	0	95,564	70,414	25,150
19	Other general equipment	489	0	0			0		0		0
20			8,687,688	-	161,503	0	161,503	0	8,849,191	3,701,754	5,147,437
	Undistributed plant:										
21	Contributions in aid of construction	496	0	0			0		0		0
22	Contributions in aid of construction	496	0	0	0		0		0		0
23	Oil wells and equipment	496	0				0		0		0
24	Total gas plant in service	100	183,644,696	47,419,271	161,503	0	47,580,774	-569,465	230,656,006	62,216,965	168,439,041
25	ARO (Asset Retirement Obligation)		0				0		0		0
	Gas plant held for future use -										
26	Ontario exploration and development	102	0				0		0		0
27	Gas plant under construction	115	23,677,327	42,907,798			42,907,798		66,585,125		66,585,125
28	Total property plant and equipment		207,322,023	90,327,069	161,503	0	90,488,572	-569,465	297,241,131	62,216,965	235,024,166

UNION GAS LIMITED
Continuity of Property, Plant and Equipment
Calendar Year Ending December 31, 2008

Line No.	Particulars	O.E.B. No.	Balance Dec. 31/07 (a)	Additions: Capital Additions (b)	Additions: Transfers (c)	Additions: Net Salvage (g)	Additions: Net Additions (h)	Retirements (d)	Balance Dec. 31/07 (e)	Accumulated Deprciation Dec. 31/08 (h)	Net Book Value (i)
	Gas Plant in Service:										
	Intangible plant:										
1	Franchises and consents	401	2,101,802	0	0	0	0	0	2,101,802	1,083,938	1,017,864
2	Other intangible plant	402	9,370,350	0	0	0	0	0	9,370,350	8,060,037	1,310,314
3			11,472,152	0	0	0	0	0	11,472,152	9,143,974	2,328,178
	Local Storage Plant										
4	Land	440	7,303	0	0	0	0	0	7,303	0	7,303
5	Structures and improvements	442	2,578,221	24,940	0	0	24,940	0	2,603,160	2,376,472	226,688
6	Gas holders - storage	443	4,472,857	0	0	0	0	0	4,472,857	4,393,931	78,926
7	Gas holders - equipment	443	7,662,665	0	0	0	0	0	7,662,665	6,525,048	1,137,617
8			14,721,046	24,940	0	0	24,940	0	14,745,985	13,295,451	1,450,534
	Underground storage plant:										
9	Land	450	5,045,414	70	0	0	70	0	5,045,484	0	5,045,484
10	Land rights	451	51,302,686	297,791	0	0	297,791	0	51,600,477	14,207,586	37,392,891
11	Structures and improvements	452	63,240,242	2,672,454	0	0	2,672,454	0	65,912,696	25,306,115	40,606,581
12	Wells	453/4/5	137,687,083	29,707,949	0	0	29,707,949	-1,022,416	166,372,616	47,348,363	119,024,253
13	Compressor equipment	456	279,575,141	13,261,121	0	0	13,261,121	-935,583	291,900,679	133,395,520	158,505,159
14	Measuring & regulating equipment	457	60,913,189	7,178,053	0	0	7,178,053	0	68,091,242	38,497,825	29,593,417
15	Base pressure gas	458	48,685,449	0	0	0	0	0	48,685,449	0	48,685,449
16	Other equipment	459	0	0	0	0	0	0	0	0	0
17			646,449,204	53,117,438	0	0	53,117,438	-1,957,999	697,608,642	258,755,409	438,853,233

UNION GAS LIMITED
Continuity of Property, Plant and Equipment
Calendar Year Ending December 31, 2008

Line No.	Particulars	O.E.B. No.	Actual Balance Dec. 31/07	Additions: Capital Additions	Additions: Transfers	Additions: Net Salvage	Additions: Net Additions	Retirements	Balance Dec. 31/07	Accumulated Deprciation Dec. 31/08	Net Book Value
			(a)	(b)	(c)	(g)	(h)	(d)	(e)	(h)	(i)
	Gas Plant in Service: (Cont'd)										
	Transmission plant:										
1	Land	460	24,348,606	-487,293	0	0	-487,293	0	23,861,313	0	23,861,313
2	Land rights	461	34,208,645	73,410	0	0	73,410	0	34,282,055	7,576,954	26,705,101
3	Structures & improvements	462/3/4	44,439,239	7,627,951	0	0	7,627,951	-2,932	52,064,258	23,291,038	28,773,220
4	Mains	465	984,378,023	14,844,526	0	0	14,844,526	-222,977	998,999,573	353,653,736	645,345,837
5	Compressor equipment	466	146,874,349	152,104,386	0	0	152,104,386	0	298,978,736	76,287,393	222,691,343
6	Measuring & regulating equipment	467	130,366,239	6,175,500	0	0	6,175,500	-82,072	136,459,667	56,016,697	80,442,970
7			1,364,615,102	180,338,480	0	0	180,338,480	-307,981	1,544,645,601	516,825,817	1,027,819,784
	Distribution plant - Southern Operations										
8	Land	470	4,163,305	1,356,323	0	0	1,356,323	0	5,519,629	0	5,519,629
9	Land rights	471	4,629,105	419,269	0	0	419,269	0	5,048,374	988,427	4,059,947
10	Structures & improvements	472	60,428,816	16,759,745	0	0	16,759,745	-6,674	77,181,887	40,899,131	36,282,756
11	Services - metallic	473	111,420,626	1,150,125	-49,050	0	1,101,074	-1,660,665	110,861,036	96,994,885	13,866,151
12	Services - plastic	473	679,997,922	33,277,493	-2,079	0	33,275,414	-2,106,022	711,167,315	248,777,678	462,389,637
13	Regulators	474	64,643,191	3,363,169	0	0	3,363,169	0	68,006,360	26,701,594	41,304,766
14	House regulators & meter installations	474	49,544,090	8,660,773	0	0	8,660,773	-18,916	58,185,946	22,290,143	35,895,803
15	Mains - metallic	475	375,988,998	10,488,164	49,050	0	10,537,215	-430,420	386,095,793	200,225,155	185,870,638
16	Mains - plastic	475	448,685,368	22,505,915	2,079	0	22,507,994	-101,798	471,091,564	135,379,272	335,712,292
17	Measuring & regulating equipment	477	23,759,985	4,150,779	0	0	4,150,779	-47,002	27,863,763	13,474,284	14,389,479
18	Meters	478	167,992,252	8,983,686	0	0	8,983,686	-5,743,810	171,232,128	59,500,293	111,731,835
19	Other distribution equipment	479	0	0	0	0	0	0	0	0	0
20			1,991,253,658	111,115,442	-0	0	111,115,442	-10,115,307	2,092,253,794	845,230,861	1,247,022,933
	Distribution plant - Northern & Eastern Operations										
21	Land	470	3,261,310	81,234	0	0	81,234	-174	3,342,370	0	3,342,370
22	Land rights	471	8,610,928	178,860	0	0	178,860	0	8,789,788	2,751,802	6,037,986
23	Structures & improvements	472	41,620,123	270,248	0	0	270,248	-21,054	41,869,317	18,326,853	23,542,464
24	Services - metallic	473	90,341,002	2,035,532	0	0	2,035,532	-420,365	91,956,168	56,937,474	35,018,694
25	Services - plastic	473	325,534,542	11,188,536	0	0	11,188,536	-280,320	336,442,758	132,774,393	203,668,365
26	Regulators	474	23,221,331	1,021,387	0	0	1,021,387	0	24,242,718	9,612,252	14,630,466
27	House regulators & meter installations	474	25,906,082	2,397,853	0	0	2,397,853	0	28,303,934	8,166,682	20,137,252
28	Mains - metallic	475	329,596,529	9,844,334	0	0	9,844,334	-540,357	338,900,506	131,140,421	207,760,085
29	Mains - plastic	475	183,449,585	4,426,084	0	0	4,426,084	-48,300	187,827,369	62,631,145	125,196,224
30	Compressor equipment	476	1,340,505	0	0	0	0	0	1,340,505	1,141,318	199,187
31	Measuring & regulating equipment	477	88,276,630	6,322,342	0	0	6,322,342	-205,887	94,393,086	42,947,471	51,445,615
32	Meters	478	49,096,150	2,321,841	0	0	2,321,841	-2,001,876	49,416,115	17,195,462	32,220,653
33	Other distribution equipment	479	0	0	0	0	0	0	0	0	0
34			1,170,254,716	40,088,252	0	0	40,088,252	-3,518,333	1,206,824,636	483,625,275	723,199,361

UNION GAS LIMITED
Continuity of Property, Plant and Equipment
Calendar Year Ending December 31, 2008

Line No.	Particulars	O.E.B. No.	Actual Balance Dec. 31/07	Additions Capital Additions	Transfers	Net Salvage	Net Additions	Retirements	Balance Dec. 31/07	Adjustments	Net Book Value
			(a)	(b)	(c)	(g)	(h)	(d)	(e)	(f)	(i)
	Gas Plant in Service: (Cont'd)										
	General plant:										
1	Land	480	639,517	0	0	0	0	0	639,517	0	639,517
2	Structures & improvements	482	42,432,217	1,106,652	0	0	1,106,652	-703,218	42,835,651	17,947,023	24,888,628
3	Office furniture & equipment	483	16,777,717	1,133,879	0	0	1,133,879	-1,309,848	16,601,749	10,357,893	6,243,856
4	Office equipment - computers	483	84,393,047	21,184,077	0	0	21,184,077	-11,864,463	93,712,660	45,611,340	48,101,320
5	Transportation equipment	484	49,666,179	6,204,277	0	0	6,204,277	-7,724,881	48,145,575	13,872,866	34,272,709
7	Heavy work equipment	485	14,295,516	938,141	0	0	938,141	-704,725	14,528,932	2,708,367	11,820,565
8	Tools & work equipment	486	33,349,694	2,346,094	0	0	2,346,094	-1,340,790	34,354,997	17,606,428	16,748,569
9	Communication equipment	488	18,020,107	226,116	0	0	226,116	-3,175,676	15,070,547	7,461,826	7,608,721
10	Communication structures		3,360,613	0	0	0	0	0	3,360,613	2,473,522	887,091
11	Other general equipment	489	0	0	0	0	0	0	0	0	0
12			262,934,607	33,139,235	0	0	33,139,235	-26,823,601	269,250,241	118,039,265	151,210,976
	Undistributed plant:										
18	Contributions in aid of construction	496	0	0	0	0	0	0	0	0	0
18	Contributions in aid of construction	496	0	0	0	0	0	0	0	0	0
19	Oil wells and equipment	496	0	0	0	0	0	0	0	0	0
13	Total gas plant in service	100	5,461,700,486	417,823,787	-0	0	417,823,787	-42,723,220	5,836,801,052	2,244,916,053	3,591,884,999
	ARO (Asset Retirement Obligation)		19,816,661	0	0	0	0	0	19,816,661	-54,537,338	74,353,999
	Gas plant held for future use -								0		
14	Ontario exploration and development	102	0	0	0	0	0	0	0	0	0
15	Gas plant under construction	115	156,962,253	-31,291,473	0	0	-31,291,473	0	125,670,780	0	125,670,780
16	Total property plant and equipment		5,638,479,400	386,532,313	-0	0	386,532,313	-42,723,220	5,982,288,492	2,190,378,715	3,791,909,778

UNION GAS LIMITED
Continuity of Accumulated Depreciation
Calendar Year Ending December 31, 2008

Line No.	Particulars ($000's)	O.E.B. No.	Balance Dec. 31/07	Transfers	Provisions	Retirements	Net Salvage /(Costs)	Balance Dec. 31/08
			(a)	(b)	(c)	(d)	(e)	(f)
	Gas Plant in Service:							
	Intangible Plant:							
1	Franchises and consents	401	982,542		101,396	0		1,083,938
2	Intangible Plant - other	402	7,937,330		122,707	0		8,060,037
3			8,919,871	0	224,103	0	0	9,143,974
	Local Storage Plant							
4	Land	440	0		0	0	0	0
5	Structures and improvements	442	2,290,980		85,493	0	0	2,376,472
6	Gas holders - storage	443	4,274,058		119,873		0	4,393,931
7	Gas holders - equipment	443	6,247,314		281,987	0	-4,253	6,525,048
8			12,812,352	0	487,353	0	-4,253	13,295,451
	Underground storage plant:							
9	Land rights	451	8,142,055		713,560			8,855,615
10	Structures & improvements	452	19,795,131		1,234,209		-178,991	20,850,348
11	Wells and lines	453/4/5	30,257,645		2,297,618	-638,758	-787,585	31,128,920
12	Compressor equipment	456	102,779,416		7,048,243	-749,777	-740,077	108,337,805
13	Measuring & regulating equipment	457	29,219,601		2,039,359		-191,450	31,067,510
14			190,193,847	0	13,332,989	-1,388,535	-1,898,103	200,240,198
	Transmission plant:							
15	Land rights	461	6,892,047		684,907	0	0	7,576,954
16	Structures & improvements	462/3/4	22,011,572		1,283,498	-2,932	-1,100	23,291,038
17	Mains	465	330,533,905		23,503,037	-222,977	-160,231	353,653,736
18	Compressor equipment	466	68,078,406		7,847,008	0	361,979	76,287,393
19	Measuring & regulating equipment	467	51,355,214		4,816,217	-82,072	-72,662	56,016,697
20			478,871,145	0	38,134,667	-307,981	127,986	516,825,817

UNION GAS LIMITED
Continuity of Accumulated Depreciation
Calendar Year Ending December 31, 2008

Line No.	Particulars ($000's)	O.E.B. No.	Balance Dec. 31/07	Transfers	Provisions	Retirements	Net Salvage /(Costs)	Balance Dec. 31/08
			(a)	(b)	(c)	(d)	(e)	(f)
	Distribution plant - Southern Operations							
1	Land rights	470	907,620		80,807			988,427
2	Structures & improvements	471	38,889,347		2,020,759	-6,674	-4,301	40,899,131
3	Services - metallic		95,320,172	-42,223	4,101,102	-1,660,665	-723,503	96,994,885
4	Services - plastic	472	229,092,520	-731	22,119,562	-2,106,022	-327,651	248,777,678
5	Regulators	473	24,512,874		2,188,720	0	0	26,701,594
6	Regulator & meter installations	474	20,418,602		1,890,683	-18,916	-225	22,290,143
7	Mains - metallic		192,872,294	42,223	9,678,509	-430,420	-1,937,450	200,225,155
8	Mains - plastic	475	124,968,992	731	10,761,473	-101,798	-250,126	135,379,272
9	Measuring & regulating equipment	477	12,432,390		1,197,674	-47,002	-108,778	13,474,284
10	Meters	478	58,897,417		6,275,603	-5,743,810	71,083	59,500,293
11			798,312,228	-0	60,314,891	-10,115,307	-3,280,952	845,230,861
	Distribution plant - Northern & Eastern Operations							
12	Land rights	471	2,605,636		146,166			2,751,802
13	Structures & improvements	472	16,992,938		1,354,969	-21,054		18,326,853
14	Services - metallic		54,683,163		3,263,122	-420,365	-588,445	56,937,474
15	Services - plastic	473	122,574,424		10,558,533	-280,320	-78,244	132,774,393
16	Regulators	474	8,817,097		792,648	0	2,507	9,612,252
17	Regulator & meter installations	474	7,218,712		948,683	0	-713	8,166,682
18	Mains - metallic		123,417,386		8,423,067	-540,357	-159,675	131,140,421
19	Mains - plastic	475	58,333,522		4,362,528	-48,300	-16,604	62,631,145
20	Compressor Equipment	476	1,096,545		44,773			1,141,318
21	Measuring & regulating equipment	477	38,981,412		4,228,807	-205,887	-56,861	42,947,471
22	Meters	478	17,377,990		1,807,688	-2,001,876	11,660	17,195,462
23	Other distribution equipment	479	0		0			0
24			452,098,824	0	35,930,984	-3,518,159	-886,375	483,625,275

UNION GAS LIMITED
Continuity of Accumulated Depreciation
Calendar Year Ending December 31, 2008

Line No.	Particulars ($000's)	O.E.B. No.	Balance Dec. 31/07	Transfers	Provisions	Retirements	Net Salvage /(Costs)	Balance Dec. 31/08
			(a)	(b)	(c)	(d)	(e)	(f)
	General plant:							
1	Structures & improvements	482	17,166,729	-7,709	967,214	-703,218		17,423,016
2	Office furniture & equipment		10,246,892	5,758	1,112,667	-1,309,848		10,055,470
3	Office equipment - computers		34,193,749	-303,619	22,263,301	-11,864,463		44,288,967
4	Transportation equipment	484	15,611,541	-153,998	4,924,821	-7,724,881	593,348	13,250,831
5	Transportation equipment - aircraft	484	0	0	0	0		0
6	Heavy work equipment	485	2,676,831	-41,366	655,754	-704,725		2,586,494
7	Tools and other equipment	486/89/79	16,196,333	-26,747	2,256,870	-1,340,790		17,085,665
8	Communication structures		2,243,775	-4,664	163,997	0		2,403,108
9	Communication equipment	488	9,254,411	62,197	1,103,028	-3,175,676		7,243,960
10			107,590,261	-470,148	33,447,651	-26,823,601	593,348	114,337,511
11	Total Gas Plant carried forward		2,048,798,529	-470,148	181,872,637	-42,153,582	-5,348,349	2,182,699,088
12	Total gas plant in service		2,048,798,529	-470,148	181,872,637	-42,153,582	-5,348,349	2,182,699,088
13	ARO (Asset Retirement Obligation)		-50,639,384	-3,897,954				-54,537,338
	Accumulated Amortization:							
14	Oil wells and equipment	496						0
15	Total		1,998,159,145	-4,368,102	181,872,637	-42,153,582	-5,348,349	2,128,161,750

UNION GAS LIMITED
Continuity of Accumulated Depreciation
Calendar Year Ending December 31, 2008

Line No.	Particulars ($000's)	O.E.B. No.	Balance Dec. 31/07	Transfers	Provisions	Retirements	Net Salvage /(Costs)	Balance Dec. 31/08
			(a)	(b)	(c)	(d)	(e)	(f)
	Gas Plant in Service:							
	Underground storage plant:							
1	Land rights	451	4,918,161		433,810			5,351,971
2	Structures & improvements	452	4,221,431		234,335			4,455,766
3	Wells and lines	453/4/5	15,107,622		1,398,405	-286,584		16,219,443
4	Compressor equipment	456	23,307,925		1,830,790	-80,999		25,057,715
5	Measuring & regulating equipment	457	6,831,392		598,923			7,430,315
6			54,386,531	0	4,496,263	-367,583	0	58,515,211
	General plant:							
13	Structures & improvements	482	516,298	7,709	0			524,007
14	Office furniture & equipment		308,181	-5,758	0	0		302,423
15	Office equipment - computers		1,018,754	303,619	0	0		1,322,373
16	Transportation equipment	484	468,037	153,998	0	0		622,035
17	Transportation equipment - aircraft	484	0	0	0	0		0
18	Heavy work equipment	485	80,507	41,366	0	0		121,873
19	Tools and other equipment	486/89/79	494,016	26,747	0	0		520,763
20	Communication structures		65,750	4,664	0	0		70,414
21	Communication equipment	488	280,063	-62,197	0	0		217,866
22			3,231,606	470,148	0	0	0	3,701,754
23	Total Gas Plant carried forward		57,618,137	470,148	4,496,263	-367,583	0	62,216,965
24	ARO (Asset Retirement Obligation)		0					0
	Accumulated Amortization:							
25	Oil wells and equipment	496						0
26	Total		57,618,137	470,148	4,496,263	-367,583	0	62,216,965

UNION GAS LIMITED
Continuity of Accumulated Depreciation
Calendar Year Ending December 31, 2008

Line No.	Particulars ($000's)	O.E.B. No.	Balance Dec. 31/07	Transfers	Provisions	Retirements	Net Salvage /(Costs)	Balance Dec. 31/08
			(a)	(b)	(c)	(d)	(e)	(f)
	Gas Plant in Service:							
	Intangible Plant:							
1	Franchises and consents	401	982,542	0	101,396	0	0	1,083,938
2	Intangible Plant - other	402	7,937,330	0	122,707	0	0	8,060,037
3			8,919,871	0	224,103	0	0	9,143,974
	Local Storage Plant							
4	Land	440	0	0	0	0	0	0
5	Structures and improvements	442	2,290,980	0	85,493	0	0	2,376,472
6	Gas holders - storage	443	4,274,058	0	119,873	0	0	4,393,931
7	Gas holders - equipment	443	6,247,314	0	281,987	0	-4,253	6,525,048
8			12,812,352	0	487,353	0	-4,253	13,295,451
	Underground storage plant:							
9	Land rights	451	13,060,216	0	1,147,370	0	0	14,207,586
10	Structures & improvements	452	24,016,562	0	1,468,544	0	-178,991	25,306,115
11	Wells and lines	453/4/5	45,365,267	0	3,696,023	-925,342	-787,585	47,348,363
12	Compressor equipment	456	126,087,341	0	8,879,032	-830,776	-740,077	133,395,520
13	Measuring & regulating equipment	457	36,050,993	0	2,638,282	0	-191,450	38,497,825
14			244,580,378	0	17,829,252	-1,756,118	-1,898,103	258,755,409
	Transmission plant:							
15	Land rights	461	6,892,047	0	684,907	0	0	7,576,954
16	Structures & improvements	462/3/4	22,011,572	0	1,283,498	-2,932	-1,100	23,291,038
17	Mains	465	330,533,905	0	23,503,037	-222,977	-160,231	353,653,736
18	Compressor equipment	466	68,078,406	0	7,847,008	0	361,979	76,287,393
19	Measuring & regulating equipment	467	51,355,214	0	4,816,217	-82,072	-72,662	56,016,697
20			478,871,145	0	38,134,667	-307,981	127,986	516,825,817

UNION GAS LIMITED
Continuity of Accumulated Depreciation
Calendar Year Ending December 31, 2008

Line No.	Particulars ($000's)	O.E.B. No.	Balance Dec. 31/07	Transfers	Provisions	Retirements	Net Salvage /(Costs)	Balance Dec. 31/08
			(a)	(b)	(c)	(d)	(e)	(f)
	Distribution plant - Southern Operations							
1	Land rights	470	907,620	0	80,807	0	0	988,427
2	Structures & improvements	471	38,889,347	0	2,020,759	-6,674	-4,301	40,899,131
3	Services - metallic		95,320,172	-42,223	4,101,102	-1,660,665	-723,503	96,994,885
4	Services - plastic	472	229,092,520	-731	22,119,562	-2,106,022	-327,651	248,777,678
5	Regulators	473	24,512,874	0	2,188,720	0	0	26,701,594
6	Regulator & meter installations	474	20,418,602	0	1,890,683	-18,916	-225	22,290,143
7	Mains - metallic		192,872,294	42,223	9,678,509	-430,420	-1,937,450	200,225,155
8	Mains - plastic	475	124,968,992	731	10,761,473	-101,798	-250,126	135,379,272
9	Measuring & regulating equipment	477	12,432,390	0	1,197,674	-47,002	-108,778	13,474,284
10	Meters	478	58,897,417	0	6,275,603	-5,743,810	71,083	59,500,293
11			798,312,228	-0	60,314,891	-10,115,307	-3,280,952	845,230,861
	Distribution plant - Northern & Eastern Operations							
12	Land rights	471	2,605,636	0	146,166	0	0	2,751,802
13	Structures & improvements	472	16,992,938	0	1,354,969	-21,054	0	18,326,853
14	Services - metallic		54,683,163	0	3,263,122	-420,365	-588,445	56,937,474
15	Services - plastic	473	122,574,424	0	10,558,533	-280,320	-78,244	132,774,393
16	Regulators	474	8,817,097	0	792,648	0	2,507	9,612,252
17	Regulator & meter installations	474	7,218,712	0	948,683	0	-713	8,166,682
18	Mains - metallic		123,417,386	0	8,423,067	-540,357	-159,675	131,140,421
19	Mains - plastic	475	58,333,522	0	4,362,528	-48,300	-16,604	62,631,145
20	Compressor Equipment	476	1,096,545	0	44,773	0	0	1,141,318
21	Measuring & regulating equipment	477	38,981,412	0	4,228,807	-205,887	-56,861	42,947,471
22	Meters	478	17,377,990	0	1,807,688	-2,001,876	11,660	17,195,462
23	Other distribution equipment	479	0	0	0	0	0	0
24			452,098,824	0	35,930,984	-3,518,159	-886,375	483,625,275

UNION GAS LIMITED
Continuity of Accumulated Depreciation
Calendar Year Ending December 31, 2008

Line No.	Particulars ($000's)	O.E.B. No.	Balance Dec. 31/07	Transfers	Provisions	Retirements	Net Salvage /(Costs)	Balance Dec. 31/08
			(a)	(b)	(c)	(d)	(e)	(f)
	General plant:							
1	Structures & improvements	482	17,683,027	0	967,214	-703,218	0	17,947,023
2	Office furniture & equipment		10,555,073	0	1,112,667	-1,309,848	0	10,357,893
3	Office equipment - computers		35,212,503	0	22,263,301	-11,864,463	0	45,611,340
4	Transportation equipment	484	16,079,578	0	4,924,821	-7,724,881	593,348	13,872,866
5	Transportation equipment - aircraft	484	0	0	0	0	0	0
6	Heavy work equipment	485	2,757,338	0	655,754	-704,725	0	2,708,367
7	Tools and other equipment	486/89/79	16,690,349	0	2,256,870	-1,340,790	0	17,606,428
8	Communication structures		2,309,525	0	163,997	0	0	2,473,522
9	Communication equipment	488	9,534,474	0	1,103,028	-3,175,676	0	7,461,826
10			110,821,867	0	33,447,651	-26,823,601	593,348	118,039,265
11	Total Gas Plant carried forward		2,106,416,666	-0	186,368,901	-42,521,165	-5,348,349	2,244,916,053
12	ARO (Asset Retirement Obligation)		-50,639,384	-3,897,954	0	0	0	-54,537,338
	Accumulated Amortization:							
13	Oil wells and equipment	496						0
	Ontario exploration and development		0	0	0	0	0	0
14	Total		2,055,777,282	-3,897,954	186,368,901	-42,521,165	-5,348,349	2,190,378,715

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers and Exporters ("CME")

References: Exhibit A, Tab 4; Exhibit A, Tab 2, Appendix B, Schedule 1

Provide an additional schedule showing the line item and total additions and deletions for the period January 1, 2009, to December 31, 2009, to show how the net additions to total storage related costs have been allocated between Utility and Non-utility storage and present the situation at December 31, 2009, in the format of the responses to the previous two (2) questions.

Response:

Please see the attachments, as outlined below.

Attachment 1 – 2009 - OEB Uniform System of Accounts mapped to Union Gas Limited's balance sheet

Attachment 2 – 2009 – Continuity of Property, Plant and Equipment

Attachment 3 – 2009 – Continuity of Accumulated Depreciation

GENERAL ACCOUNT #	USOA GENERAL ACCOUNT NAME	OEB - CURRENT BALANCE - $ (UGL Non-Cons)	UGL - Consolidation Entries (HTLP) - $	Reclassification Entries - $	Foot Notes	Balance - UGL - Cons - $	Annual Report Line Item - TOTAL ($millions)	Annual Report Line Item - Description	Balance Assigned to Unregulated Storage
BALANCE SHEET - ASSETS									
Property, Plant and Equipment							**4,303**	**Property, plant and equipment, net**	**245**
100	Utility Plant in Service	6,115,840,311	41,169,374			6,157,009,685			
101	Utility Plant Leased to Others					-			
102	Utility Plant Held for Future Use					-			
103	Retirement Work In Progress					-			
104	Utility Plant Acquisition Adjustments					-			
105	Accumulated Depreciation - Utility Plant	(1,882,907,918)	(1,349,166)			(1,884,257,084)			
106	Accumulated Amortization - Utility Plant					-			
108	Accumulated Amortization - Utility Plant - Acquisition Adjustments					-			
110	Other Utility Plant	5,182,879		(5,182,879)	L	0			
111	Accumulated Depreciation and Amortization - Other Utility Plant					-			
115	Construction Work In Progress - Utility Plant	30,309,478				30,309,478			
116	Other Utility Plant Under Construction					-			
Long Term Investments							**0**		
120	Investment in Related Parties	37,108,290	(37,108,290)			0			
121	Portfolio Investments					-			
123	Miscellaneous Special Funds					-			
Current Assets							**716**	**Total Current Assets**	
130	Cash	(11,815,883)	1,547,398	44,500,000	M, N	34,231,515			
131	Special Deposits					-			
132	Short-term Investments					-			
140	Accounts Receivable-Customers	359,093,155		8,795,343	S	367,888,498			
141	Accounts Receivable-Related Parties	6,449,752	(1,414,778)			5,034,974			
142	Accounts Receivable-Others	4,548,706				4,548,706			
145	Allowance for Doubtful Accounts	(6,492,137)				(6,492,137)			
147	Interest and Dividends Receivable					-			
150	Materials and Supplies	29,298,270		(12,808,683)	P	16,489,587			
151	Materials and Supplies-Other					-			
152	Gas in Storage-Available for Sale	199,510,280				199,510,280			
153	Transmission Line Pack Gas	8,454,377				8,454,377			
160	Prepayments	4,623,897				4,623,897			
162	Other Current Assets			977,533	R	977,533			
163	Current Deferred Income Tax Debits	56,591,058				56,591,058			
Deferred Charges									
170	Unamortized Debt Discount and Expense	10,763,341		(10,763,341)	G	0			
171	Extraordinary Plant Losses	(6,402,000)		6,402,000	T	-			
172	Preliminary Survey and Investigation Charges					-			
177	Share Capital Expense					-			
179	Other Deferred Charges - See Schedule 1	137,014,697		(112,322,637)	A,B,D,E,F,H,I,J,K,Q	24,692,060			
Other Assets							**427**	**Investments and other assets**	
180	Intangible Assets	8,832,535	3,014,645			11,847,180			
181	Unamortized Deferred Foreign Currency Translation Gains and Losses					-			
182	Deferred Development Costs					-			
183	Non-Current Deferred Income Tax Debits					-			
	Other Assets			415,252,620	F,I,J,K,L,P,Q	415,252,620			

							(1,438)	**Shareholder's Equity and Non-controlling Interst**	
Shareholders' E	Preference Shares	(104,500,000)				(104,500,000)			
200	Common Shares	(627,062,581)				(627,062,581)			
205	Contributed Surplus	(158,557)				(158,557)			
210	Retained Earnings	(523,145,044)	1,619,720	(176,656,264)	O	(698,181,588)			
212	Appropriations of Retained Earnings					-			
215	Appraisal Increase Credits					-			
216	Non-controlling Interest		(9,504,692)			(9,504,692)			
							(1,984)	**Long Term Debt and obligations under capital lease & Mandatorily redeemable preference shares**	
Long Term Debt	Long-Term Debt	(1,994,858,600)				(1,994,858,600)			
220	Long Term Lease Obligations					-			
225	Long Term Advances from Related Parties					-			
248	Other Long Term Debt			10,763,341	G	10,763,341			
249							(1,134)	**Total current liabilites**	
Current Liabiliti	Loans and Notes Payable					-			
250	Accounts Payable and Accrued Liabilities	(439,700,522)	2,025,789	(977,533)	R	(438,652,266)			
251	Accounts Payable and Accrued Liabilities-Related Parties	(1,171,921)		(6,000,000)	M	(7,171,921)			
252	Dividends Payable					-			
253	Customers Security Deposits	(58,347,727)				(58,347,727)			
254	Customers Advances for Construction					-			
255	Taxes Payable - Current	(78,995,764)				(78,995,764)			
256	Interest Payable and Accrued	(36,054,326)				(36,054,326)			
257	Current Portion of Long Term Debt	(222,000,000)				(222,000,000)			
258	Other Current and Accrued Liabilities			(292,006,178)	A,B,C,D,E,N,S,T	(292,006,178)			
259	Current Deferred Income Tax Credits					-			
260	Current Long Term Lease Obligations					-			
262	Deferred Revenues								
263							(890)	**Future income taxes & Asset retirement obligations & Deferred credits and other liabilities**	**(29)**
Deferred Credits	Unamortized Debt Premium					-			
270	Unearned Finance Charges on Customers Accounts Receivable					-			
271	Accumulated Deferred Income Taxes	(733,478,377)		8,331,000	C	(725,147,377)			
276	Contributions and Grants					-			
278	Other Long Term Liabilities and Deferred Credits	(109,873,406)		(54,960,586)	H	(164,833,992)			
279	Insurance Provisions					-			
290		(176,656,264)		176,656,264	O	(0)			
Net Income		0	-	-	-	0	0		

A - Reclass Customer Deferrals (Gas Related) to Current Liabilites (185,609,685)
B - Reclass Customer Deferrals (Other) to Current Liabilites ($20,348,845)
C - Reclass DIT Pre96 Current Portion to Current Liabilities ($8,331,000)
D - Reclass Customer Deferrals (Earnings sharing) to Current Liabilites ($4,100,000)
E - Reclass Customer Deferrals (S&T) to Current Liabilities ($19,919,305)
F - Reclass Balancing Gas to Non-current assets $94,337,980
G - Reclass Deferred Financing costs to LTD $10,763,341
H - Reclass Deferral Pension Liabilities to Other Long Term Liabilites & Deferred Credits ($54,960,586)
I - Reclass Deferral Pension Assets to Non-current Assets $136,881,625
J - Reclass Rate Hearing Costs to Non-current Assets $3,600,000
K - Reclass Reg Asset for DIT to Non-current assets $228,119,453
L - Reclass Land Held for sale to Non-current assets $5,182,879
M - Reclass Loan to WEI to current asset $6,000,000
N - Reclass Commercial Paper to Current Liabilites ($38,500,000)
O - Reclass Net Income to Retained Earnings ($176,656,264)
P - Reclass Major Spare Parts from Current Assets to Other Assets $12,808,683
Q - Reclass DIT Ratepayer Liability Pre-96 to Other Assets ($65,678,000)
R - Reclass Gas Purch Receivable to Current Assets $977,533
S - Reclass ABC Broker Payable to Current Liabilities ($8,795,343)

UNION GAS LIMITED
Continuity of Property, Plant and Equipment
Calendar Year Ending December 31, 2009

Line No.	Particulars	O.E.B. No.	Balance Dec. 31/08	Additions: Capital Additions	Additions: Transfers	Additions: Net Salvage	Additions: Net Additions	Retirements	Balance Dec. 31/09	Accumulated Deprciation Dec. 31/08	Net Book Value
			(a)	(b)	(c)	(g)	(h)	(d)	(e)	(h)	(i)
	Gas Plant in Service:										
	Intangible plant:										
1	Franchises and consents	401	2,101,802				0	-780,456	1,321,346	385,621	935,725
2	Other intangible plant	402	9,370,350				0	-3,000,000	6,370,350	5,182,744	1,187,607
3			11,472,152	0	0	0	0	-3,780,456	7,691,696	5,568,365	2,123,332
	Local Storage Plant										
4	Land	440	7,303				0		7,303		7,303
5	Structures and improvements	442	2,603,160	10,062	-101,221		-91,159		2,512,002	2,367,066	144,936
6	Gas holders - storage	443	4,472,857		101,221		101,221		4,574,078	4,608,967	-34,889
7	Gas holders - equipment	443	7,662,665	19,778	995,702		1,015,480		8,678,146	7,624,679	1,053,467
8			14,745,985	29,840	995,702	0	1,025,542	0	15,771,527	14,600,711	1,170,817
	Underground storage plant:										
9	Land	450	3,814,101				0		3,814,101		3,814,101
10	Land rights	451	32,012,424	49,872			49,872		32,062,296	9,570,048	22,492,248
11	Structures and improvements	452	53,804,038	1,221,893	197,185		1,419,078	-189,936	55,033,180	22,023,084	33,010,096
12	Wells	453/4/5	86,897,975	323,607			323,607	-56,973	87,164,609	33,386,861	53,777,748
13	Compressor equipment	456	221,468,859	3,915,256			3,915,256	-2,308,263	223,075,852	112,985,339	110,090,513
14	Measuring & regulating equipment	457	47,454,779	1,677,764			1,677,764	-2,222	49,130,321	33,147,869	15,982,452
15	Base pressure gas	458	30,349,652				0		30,349,652		30,349,652
16	Other equipment	459	0				0		0		0
17			475,801,827	7,188,393	197,185	0	7,385,578	-2,557,393	480,630,012	211,113,202	269,516,810

UNION GAS LIMITED
Continuity of Property, Plant and Equipment
Calendar Year Ending December 31, 2009

Line No.	Particulars	O.E.B. No.	Actual Balance Dec. 31/08	Additions: Capital Additions	Additions: Transfers	Additions: Net Salvage	Additions: Net Additions	Retirements	Balance Dec. 31/09	Retirements	Retirements
			(a)	(b)	(c)	(g)	(h)	(d)	(e)	(d)	(d)
	Gas Plant in Service: (Cont'd)										
	Transmission plant:										
1	Land	460	23,861,313	-185,115			-185,115	-4,437	23,671,761		23,671,761
2	Land rights	461	34,282,055	3,807,311			3,807,311	-451,927	37,637,439	8,166,151	29,471,288
3	Structures & improvements	462/3/4	52,064,258	892,697	362,704		1,255,400	-60,901	53,258,758	24,673,025	28,585,733
4	Mains	465	998,999,573	44,718,687			44,718,687	-8,210,995	1,035,507,264	373,852,441	661,654,822
5	Compressor equipment	466	298,978,736	3,938,405			3,938,405	-7,005,563	295,911,578	79,825,934	216,085,644
6	Measuring & regulating equipment	467	136,459,667	6,830,886	-340,684		6,490,203	-2,504,108	140,445,761	59,157,047	81,288,714
7			1,544,645,601	60,002,871	22,020	0	60,024,891	-18,237,931	1,586,432,561	545,674,598	1,040,757,963
	Distribution plant - Southern Operations										
8	Land	470	5,519,629	1,430,015	-2,950		1,427,065	-14,829	6,931,865		6,931,865
9	Land rights	471	5,048,374	282,030	2,950		284,980		5,333,354	1,075,118	4,258,236
10	Structures & improvements	472	77,181,887	23,121,079	-70,139		23,050,940	-138,204	100,094,623	43,323,729	56,770,894
11	Services - metallic	473	110,861,036	618,651			618,651	-1,346,384	110,133,304	99,148,902	10,984,402
12	Services - plastic	473	711,167,315	19,166,142	-201,206		18,964,936	-1,821,457	728,310,795	269,478,438	458,832,357
13	Regulators	474	68,006,360	3,495,553			3,495,553		71,501,913	29,003,481	42,498,432
14	House regulators & meter installations	474	58,185,946	8,303,200			8,303,200	-137,168	66,351,977	24,339,404	42,012,573
15	Mains - metallic	475	386,095,793	11,565,720			11,565,720	-1,848,788	395,812,725	205,581,600	190,231,125
16	Mains - plastic	475	471,091,564	21,158,364			21,158,364	-755,295	491,494,633	145,659,658	345,834,975
17	Measuring & regulating equipment	477	27,863,763	884,492			884,492	-72,260	28,675,995	14,631,722	14,044,273
18	Meters	478	171,232,128	12,507,062	750		12,507,812	-6,306,052	177,433,888	59,846,478	117,587,410
19	Other distribution equipment	479	0				0		0		0
20			2,092,253,794	102,532,308	-270,594	0	102,261,713	-12,440,437	2,182,075,070	892,088,528	1,289,986,542
	Distribution plant - Northern & Eastern Operations										
21	Land	470	3,342,370	292,900			292,900		3,635,270		3,635,270
22	Land rights	471	8,789,788	101,525			101,525		8,891,313	2,900,322	5,990,991
23	Structures & improvements	472	41,869,317	16,875,971	475,703		17,351,673	-337,111	58,883,880	19,814,882	39,068,998
24	Services - metallic	473	91,956,168	619,924			619,924	-515,846	92,060,246	59,187,883	32,872,363
25	Services - plastic	473	336,442,758	8,346,426	200,456		8,546,881	-234,355	344,755,284	143,405,305	201,349,979
26	Regulators	474	24,242,718	1,306,694			1,306,694		25,549,412	10,444,238	15,105,174
27	House regulators & meter installations	474	28,303,934	609,086			609,086	-53,159	28,859,862	9,112,916	19,746,946
28	Mains - metallic	475	338,900,506	7,246,693			7,246,693	-717,092	345,430,107	138,847,008	206,583,099
29	Mains - plastic	475	187,827,369	8,586,034			8,586,034	-45,922	196,367,481	67,068,905	129,298,576
30	Compressor equipment	476	1,340,505		-995,702		-995,702	-344,803	0	0	-0
31	Measuring & regulating equipment	477	94,393,086	8,999,292	-638,699		8,360,593	-891,432	101,862,247	46,242,271	55,619,976
32	Meters	478	49,416,115	4,924,174			4,924,174	-2,317,624	52,022,664	16,745,058	35,277,606
33	Other distribution equipment	479	0				0		0		0
34			1,206,824,636	57,908,718	-958,243	0	56,950,475	-5,457,343	1,258,317,767	513,768,789	744,548,978

UNION GAS LIMITED
Continuity of Property, Plant and Equipment
Calendar Year Ending December 31, 2009

Line No.	Particulars	O.E.B. No.	Actual Balance Dec. 31/08 (a)	Additions: Capital Additions (b)	Additions: Transfers (c)	Additions: Net Salvage (g)	Additions: Net Additions (h)	Retirements (d)	Balance Dec. 31/09 (e)	Retirements (d)	Retirements (d)
	Gas Plant in Service: (Cont'd)										
	General plant:										
1	Land	480	620,845				0		620,845		620,845
2	Structures & improvements	482	41,584,962	73,349			73,349	-504,985	41,153,326	17,850,815	23,302,511
3	Office furniture & equipment	483	16,117,021	831,628			831,628	-1,965,933	14,982,715	9,126,207	5,856,508
4	Office equipment - computers	483	90,976,494	15,227,542			15,227,542	-21,764,422	84,439,615	44,442,192	39,997,423
5	Transportation equipment	484	45,979,084	1,848,975	-51,466		1,797,509	-8,607,014	39,169,579	8,939,010	30,230,569
6	Heavy work equipment	485	13,875,148	890,987	51,466		942,454	-2,487,305	12,330,297	709,051	11,621,246
7	Tools & work equipment	486	33,351,921	1,778,852			1,778,852	-2,227,458	32,903,315	17,073,434	15,829,881
8	Communication equipment	488	14,630,526	464,515			464,515	-1,909,349	13,185,691	6,261,817	6,923,874
9	Communication structures		3,265,049				0	-579,757	2,685,293	1,968,537	716,756
10	Other general equipment	489	0				0		0		0
11			260,401,050	21,115,849	0	0	21,115,849	-40,046,224	241,470,676	106,371,063	135,099,613
	Undistributed plant:										
12	Contributions in aid of construction	496	0	0			0		0		0
13	Contributions in aid of construction	496	0	0	0		0		0		0
14	Oil wells and equipment	496	0				0		0		0
15	Total gas plant in service	100	5,606,145,046	248,777,978	-13,930	0	248,764,048	-82,519,784	5,772,389,310	2,289,185,255	3,483,204,055
16	ARO (Asset Retirement Obligation)		19,816,661	12,029,621			12,029,621	-18,404	31,827,878	12,195,641	19,632,237
17	Negative Salvage						0		0	-486,058,294	486,058,294
	Gas plant held for future use -										
18	Ontario exploration and development	102	0				0		0		0
19	Gas plant under construction	115	59,085,655	-29,455,946			-29,455,946		29,629,709		29,629,709
20	Total property plant and equipment		5,685,047,362	231,351,652	-13,930	0	231,337,723	-82,538,188	5,833,846,896	1,815,322,602	4,018,524,294

UNREGULATED

UNION GAS LIMITED
Continuity of Property, Plant and Equipment
Calendar Year Ending December 31, 2009

Line No.	Particulars	O.E.B. No.	Balance Dec. 31/08	Additions: Capital Additions	Additions: Transfers	Additions: Net Salvage	Additions: Net Additions	Retirements	Balance Dec. 31/09	Retirements	Retirements
			(a)	(b)	(c)	(g)	(h)	(d)	(e)	(d)	(d)
	Gas Plant in Service:										
	Underground storage plant:										
1	Land	450	1,231,383	28,322			28,322		1,259,705		1,259,705
2	Land rights	451	19,588,053	2,320,542			2,320,542		21,908,595	5,814,660	16,093,935
3	Structures and improvements	452	12,108,657	6,690,552	13,930		6,704,481	-55,631	18,757,508	4,750,733	14,006,774
4	Wells	453/4/5	79,474,641	5,891,487			5,891,487	-34,419	85,331,709	17,961,049	67,370,660
5	Compressor equipment	456	70,431,820	65,004,995			65,004,995	-706,509	134,730,306	27,543,521	107,186,785
6	Measuring & regulating equipment	457	20,636,463	865,786			865,786		21,502,249	8,156,083	13,346,166
7	Base pressure gas	458	18,335,797	1,659,831			1,659,831		19,995,628		19,995,628
8	Other equipment	459	0				0		0		0
9			221,806,815	82,461,514	13,930	0	82,475,444	-796,559	303,485,699	64,226,046	239,259,653
	General plant:										
10	Land	480	18,672				0		18,672		18,672
11	Structures & improvements	482	1,250,689	2,206			2,206	-15,188	1,237,707	536,876	700,831
12	Office furniture & equipment	483	484,728	25,014			25,014	-59,132	450,610	274,472	176,138
13	Office equipment - computers	483	2,736,166	458,019			458,019	-654,637	2,539,548	1,336,623	1,202,925
14	Transportation equipment	484	2,166,491	87,125	-2,425		84,700	-405,566	1,845,625	418,860	1,426,765
15	Heavy work equipment	485	653,784	41,984	2,425		44,409	-117,203	580,990	33,407	547,583
16	Tools & work equipment	486	1,003,076	53,505			53,505	-66,998	989,583	513,493	476,090
17	Communication equipment	488	440,021	13,972			13,972	-57,430	396,563	188,325	208,238
18	Communication structures		95,564				0	-17,438	78,126	57,214	20,912
19	Other general equipment	489	0				0		0		0
20			8,849,191	681,825	0	0	681,825	-1,393,592	8,137,424	3,359,270	4,778,154
	Undistributed plant:										
21	Contributions in aid of construction	496	0	0			0		0		0
22	Contributions in aid of construction	496	0	0	0		0		0		0
23	Oil wells and equipment	496	0				0		0		0
24	Total gas plant in service	100	230,656,006	83,143,339	13,930	0	83,157,269	-2,190,151	311,623,123	67,585,316	244,037,807
25	ARO (Asset Retirement Obligation)		0				0		0		0
	Gas plant held for future use -										
26	Ontario exploration and development	102	0				0		0		0
27	Gas plant under construction	115	66,585,125	-65,905,356			-65,905,356		679,769		679,769
28	Total property plant and equipment		297,241,131	17,237,984	13,930	0	17,251,913	-2,190,151	312,302,893	67,585,316	244,717,576

TOTAL UNION GAS

UNION GAS LIMITED
Continuity of Property, Plant and Equipment
Calendar Year Ending December 31, 2009

Line No.	Particulars	O.E.B. No.	Balance Dec. 31/08 (a)	Additions: Capital Additions (b)	Additions: Transfers (c)	Additions: Net Salvage (g)	Additions: Net Additions (h)	Retirements (d)	Balance Dec. 31/09 (e)	Retirements (d)	Retirements (d)
	Gas Plant in Service:										
	Intangible plant:										
1	Franchises and consents	401	2,101,802	0	0	0	0	-780,456	1,321,346	385,621	935,725
2	Other intangible plant	402	9,370,350	0	0	0	0	-3,000,000	6,370,350	5,182,744	1,187,607
3			11,472,152	0	0	0	0	-3,780,456	7,691,696	5,568,365	2,123,332
	Local Storage Plant										
4	Land	440	7,303	0	0	0	0	0	7,303	0	7,303
5	Structures and improvements	442	2,603,160	10,062	-101,221	0	-91,159	0	2,512,002	2,367,066	144,936
6	Gas holders - storage	443	4,472,857	0	101,221	0	101,221	0	4,574,078	4,608,967	-34,889
7	Gas holders - equipment	443	7,662,665	19,778	995,702	0	1,015,480	0	8,678,146	7,624,679	1,053,467
8			14,745,985	29,840	995,702	0	1,025,542	0	15,771,527	14,600,711	1,170,817
	Underground storage plant:										
9	Land	450	5,045,484	28,322	0	0	28,322	0	5,073,806	0	5,073,806
10	Land rights	451	51,600,477	2,370,414	0	0	2,370,414	0	53,970,891	15,384,708	38,586,183
11	Structures and improvements	452	65,912,696	7,912,445	211,115	0	8,123,559	-245,567	73,790,688	26,773,818	47,016,870
12	Wells	453/4/5	166,372,616	6,215,094	0	0	6,215,094	-91,392	172,496,318	51,347,910	121,148,408
13	Compressor equipment	456	291,900,679	68,920,251	0	0	68,920,251	-3,014,772	357,806,158	140,528,860	217,277,298
14	Measuring & regulating equipment	457	68,091,242	2,543,550	0	0	2,543,550	-2,222	70,632,571	41,303,953	29,328,618
15	Base pressure gas	458	48,685,449	1,659,831	0	0	1,659,831	0	50,345,279	0	50,345,279
16	Other equipment	459	0	0	0	0	0	0	0	0	0
17			697,608,642	89,649,907	211,115	0	89,861,022	-3,353,953	784,115,712	275,339,249	508,776,463

UNION GAS LIMITED
Continuity of Property, Plant and Equipment
Calendar Year Ending December 31, 2009

Line No.	Particulars	O.E.B. No.	Actual Balance Dec. 31/08	Additions: Capital Additions	Additions: Transfers	Additions: Net Salvage	Additions: Net Additions	Retirements	Balance Dec. 31/09	Retirements	Retirements
			(a)	(b)	(c)	(g)	(h)	(d)	(e)	(d)	(d)
	Gas Plant in Service: (Cont'd)										
	Transmission plant:										
1	Land	460	23,861,313	-185,115	0	0	-185,115	-4,437	23,671,761	0	23,671,761
2	Land rights	461	34,282,055	3,807,311	0	0	3,807,311	-451,927	37,637,439	8,166,151	29,471,288
3	Structures & improvements	462/3/4	52,064,258	892,697	362,704	0	1,255,400	-60,901	53,258,758	24,673,025	28,585,733
4	Mains	465	998,999,573	44,718,687	0	0	44,718,687	-8,210,995	1,035,507,264	373,852,441	661,654,822
5	Compressor equipment	466	298,978,736	3,938,405	0	0	3,938,405	-7,005,563	295,911,578	79,825,934	216,085,644
6	Measuring & regulating equipment	467	136,459,667	6,830,886	-340,684	0	6,490,203	-2,504,108	140,445,761	59,157,047	81,288,714
7			1,544,645,601	60,002,871	22,020	0	60,024,891	-18,237,931	1,586,432,561	545,674,598	1,040,757,963
	Distribution plant - Southern Operations										
8	Land	470	5,519,629	1,430,015	-2,950	0	1,427,065	-14,829	6,931,865	0	6,931,865
9	Land rights	471	5,048,374	282,030	2,950	0	284,980	0	5,333,354	1,075,118	4,258,236
10	Structures & improvements	472	77,181,887	23,121,079	-70,139	0	23,050,940	-138,204	100,094,623	43,323,729	56,770,894
11	Services - metallic	473	110,861,036	618,651	0	0	618,651	-1,346,384	110,133,304	99,148,902	10,984,402
12	Services - plastic	473	711,167,315	19,166,142	-201,206	0	18,964,936	-1,821,457	728,310,795	269,478,438	458,832,357
13	Regulators	474	68,006,360	3,495,553	0	0	3,495,553	0	71,501,913	29,003,481	42,498,432
14	House regulators & meter installations	474	58,185,946	8,303,200	0	0	8,303,200	-137,168	66,351,977	24,339,404	42,012,573
15	Mains - metallic	475	386,095,793	11,565,720	0	0	11,565,720	-1,848,788	395,812,725	205,581,600	190,231,125
16	Mains - plastic	475	471,091,564	21,158,364	0	0	21,158,364	-755,295	491,494,633	145,659,658	345,834,975
17	Measuring & regulating equipment	477	27,863,763	884,492	0	0	884,492	-72,260	28,675,995	14,631,722	14,044,273
18	Meters	478	171,232,128	12,507,062	750	0	12,507,812	-6,306,052	177,433,888	59,846,478	117,587,410
19	Other distribution equipment	479	0	0	0	0	0	0	0	0	0
20			2,092,253,794	102,532,308	-270,594	0	102,261,713	-12,440,437	2,182,075,070	892,088,528	1,289,986,542
	Distribution plant - Northern & Eastern Operations										
21	Land	470	3,342,370	292,900	0	0	292,900	0	3,635,270	0	3,635,270
22	Land rights	471	8,789,788	101,525	0	0	101,525	0	8,891,313	2,900,322	5,990,991
23	Structures & improvements	472	41,869,317	16,875,971	475,703	0	17,351,673	-337,111	58,883,880	19,814,882	39,068,998
24	Services - metallic	473	91,956,168	619,924	0	0	619,924	-515,846	92,060,246	59,187,883	32,872,363
25	Services - plastic	473	336,442,758	8,346,426	200,456	0	8,546,881	-234,355	344,755,284	143,405,305	201,349,979
26	Regulators	474	24,242,718	1,306,694	0	0	1,306,694	0	25,549,412	10,444,238	15,105,174
27	House regulators & meter installations	474	28,303,934	609,086	0	0	609,086	-53,159	28,859,862	9,112,916	19,746,946
28	Mains - metallic	475	338,900,506	7,246,693	0	0	7,246,693	-717,092	345,430,107	138,847,008	206,583,099
29	Mains - plastic	475	187,827,369	8,586,034	0	0	8,586,034	-45,922	196,367,481	67,068,905	129,298,576
30	Compressor equipment	476	1,340,505	0	-995,702	0	-995,702	-344,803	0	0	-0
31	Measuring & regulating equipment	477	94,393,086	8,999,292	-638,699	0	8,360,593	-891,432	101,862,247	46,242,271	55,619,976
32	Meters	478	49,416,115	4,924,174	0	0	4,924,174	-2,317,624	52,022,664	16,745,058	35,277,606
33	Other distribution equipment	479	0	0	0	0	0	0	0	0	0
34			1,206,824,636	57,908,718	-958,243	0	56,950,475	-5,457,343	1,258,317,767	513,768,789	744,548,978

UNION GAS LIMITED
Continuity of Property, Plant and Equipment
Calendar Year Ending December 31, 2009

Line No.	Particulars	O.E.B. No.	Actual Balance Dec. 31/08	Additions: Capital Additions	Additions: Transfers	Additions: Net Salvage	Additions: Net Additions	Retirements	Balance Dec. 31/09	Retirements	Retirements
			(a)	(b)	(c)	(g)	(h)	(d)	(e)	(d)	(d)
	Gas Plant in Service: (Cont'd)										
	General plant:										
1	Land	480	639,517	0	0	0	0	0	639,517	0	639,517
2	Structures & improvements	482	42,835,651	75,555	0	0	75,555	-520,173	42,391,033	18,387,691	24,003,342
3	Office furniture & equipment	483	16,601,749	856,642	0	0	856,642	-2,025,065	15,433,325	9,400,679	6,032,646
4	Office equipment - computers	483	93,712,660	15,685,561	0	0	15,685,561	-22,419,059	86,979,163	45,778,815	41,200,348
5	Transportation equipment	484	48,145,575	1,936,100	-53,891	0	1,882,209	-9,012,580	41,015,204	9,357,870	31,657,334
7	Heavy work equipment	485	14,528,932	932,971	53,891	0	986,863	-2,604,508	12,911,287	742,458	12,168,829
8	Tools & work equipment	486	34,354,997	1,832,357	0	0	1,832,357	-2,294,456	33,892,898	17,586,927	16,305,971
9	Communication equipment	488	15,070,547	478,487	0	0	478,487	-1,966,779	13,582,254	6,450,142	7,132,112
10	Communication structures		3,360,613	0	0	0	0	-597,195	2,763,419	2,025,751	737,668
11	Other general equipment	489	0	0	0	0	0	0	0	0	0
12			269,250,241	21,797,674	0	0	21,797,674	-41,439,816	249,608,100	109,730,333	139,877,767
	Undistributed plant:										
18	Contributions in aid of construction	496	0	0	0	0	0	0	0	0	0
18	Contributions in aid of construction	496	0	0	0	0	0	0	0	0	0
19	Oil wells and equipment	496	0	0	0	0	0	0	0	0	0
13	Total gas plant in service	100	5,836,801,052	331,921,317	0	0	331,921,317	-84,709,935	6,084,012,433	2,356,770,572	3,727,241,862
	ARO (Asset Retirement Obligation)		19,816,661	12,029,621	0	0	12,029,621	-18,404	31,827,878	12,195,641	19,632,237
	Negative Salvage		0	0	0	0	0	0	0	-486,058,294	486,058,294
	Gas plant held for future use -								0		
14	Ontario exploration and development	102	0	0	0	0	0	0	0	0	0
15	Gas plant under construction	115	125,670,780	-95,361,302	0	0	-95,361,302	0	30,309,478	0	30,309,478
16	Total property plant and equipment		5,982,288,492	248,589,636	0	0	248,589,636	-84,728,339	6,146,149,789	1,882,907,919	4,263,241,871

UNION GAS LIMITED
Continuity of Accumulated Depreciation
Calendar Year Ending December 31, 2009

Line No.	Particulars ($000's)	O.E.B. No.	Balance Dec. 31/08 (a)	Transfers (b)	Provisions (c)	Retirements (d)	Net Salvage /(Costs) (e)	Balance Dec. 31/09 (f)
	Gas Plant in Service:							
	Intangible Plant:							
1	Franchises and consents	401	1,083,938		82,139	-780,456		385,621
2	Intangible Plant - other	402	8,060,037		122,707	-3,000,000		5,182,744
3			9,143,974	0	204,846	-3,780,456	0	5,568,365
	Local Storage Plant							
4	Land	440	0					0
5	Structures and improvements	442	2,376,472	-93,807	84,400			2,367,066
6	Gas holders - storage	443	4,393,931	93,807	121,229			4,608,967
7	Gas holders - equipment	443	6,525,048	816,022	300,674		-17,066	7,624,679
8			13,295,451	816,022	506,303	0	-17,066	14,600,711
	Underground storage plant:							
9	Land rights	451	8,855,615		714,433			9,570,048
10	Structures & improvements	452	20,850,348	89,039	1,273,389	-189,936	245	22,023,084
11	Wells and lines	453/4/5	31,128,920		2,315,033	-56,973	-119	33,386,861
12	Compressor equipment	456	108,337,805	3,140	7,090,490	-2,308,263	-137,833	112,985,339
13	Measuring & regulating equipment	457	31,067,510		2,076,581	-2,222	6,000	33,147,869
14			200,240,198	92,179	13,469,926	-2,557,393	-131,707	211,113,202
	Transmission plant:							
15	Land rights	461	7,576,954	321,930	719,194	-451,927		8,166,151
16	Structures & improvements	462/3/4	23,291,038	154,342	1,400,803	-60,901	-112,258	24,673,025
17	Mains	465	353,653,736	4,310,916	24,108,904	-8,210,995	-10,119	373,852,441
18	Compressor equipment	466	76,287,393		10,470,068	-7,005,563	74,036	79,825,934
19	Measuring & regulating equipment	467	56,016,697	655,891	4,998,148	-2,504,108	-9,581	59,157,047
20			516,825,817	5,443,079	41,697,118	-18,233,494	-57,922	545,674,598

UNION GAS LIMITED
Continuity of Accumulated Depreciation
Calendar Year Ending December 31, 2009

Line No.	Particulars ($000's)	O.E.B. No.	Balance Dec. 31/08	Transfers	Provisions	Retirements	Net Salvage /(Costs)	Balance Dec. 31/09
			(a)	(b)	(c)	(d)	(e)	(f)
	Distribution plant - Southern Operations							
1	Land rights	470	988,427		86,691			1,075,118
2	Structures & improvements	471	40,899,131	-32,433	2,594,381	-138,204	854	43,323,729
3	Services - metallic		96,994,885		4,077,362	-1,346,384	-576,962	99,148,902
4	Services - plastic	472	248,777,678	-68,899	22,887,739	-1,821,457	-296,624	269,478,438
5	Regulators	473	26,701,594		2,301,887			29,003,481
6	Regulator & meter installations	474	22,290,143	1,060	2,185,619	-137,168	-249	24,339,404
7	Mains - metallic		200,225,155		9,930,248	-1,848,788	-2,725,015	205,581,600
8	Mains - plastic	475	135,379,272		11,262,324	-755,295	-226,642	145,659,658
9	Measuring & regulating equipment	477	13,474,284		1,311,723	-72,260	-82,025	14,631,722
10	Meters	478	59,500,293	46,038	6,450,347	-6,306,052	155,852	59,846,478
11			845,230,861	-54,235	63,088,321	-12,425,608	-3,750,811	892,088,528
	Distribution plant - Northern & Eastern Operations							
12	Land rights	471	2,751,802		148,520			2,900,322
13	Structures & improvements	472	18,326,853	230,393	1,594,746	-337,111		19,814,882
14	Services - metallic		56,937,474		3,293,896	-515,846	-527,641	59,187,883
15	Services - plastic	473	132,774,393	68,626	10,865,108	-234,355	-68,467	143,405,305
16	Regulators	474	9,612,252		831,529		457	10,444,238
17	Regulator & meter installations	474	8,166,682		1,000,370	-53,159	-978	9,112,916
18	Mains - metallic		131,140,421		8,622,560	-717,092	-198,881	138,847,008
19	Mains - plastic	475	62,631,145		4,514,293	-45,922	-30,611	67,068,905
20	Compressor Equipment	476	1,141,318	-816,022	19,507	-344,803		0
21	Measuring & regulating equipment	477	42,947,471	-303,918	4,543,303	-891,432	-53,153	46,242,271
22	Meters	478	17,195,462		1,861,380	-2,317,624	5,841	16,745,058
23	Other distribution equipment	479	0					0
24			483,625,275	-820,921	37,295,211	-5,457,343	-873,432	513,768,789

UNION GAS LIMITED
Continuity of Accumulated Depreciation
Calendar Year Ending December 31, 2009

Line No.	Particulars ($000's)	O.E.B. No.	Balance Dec. 31/08	Transfers	Provisions	Retirements	Net Salvage /(Costs)	Balance Dec. 31/09
			(a)	(b)	(c)	(d)	(e)	(f)
	General plant:							
1	Structures & improvements	482	17,423,016		932,784	-504,985		17,850,815
2	Office furniture & equipment		10,055,470		1,036,671	-1,965,933		9,126,207
3	Office equipment - computers		44,288,967		21,927,006	-21,764,422	-9,360	44,442,192
4	Transportation equipment	484	13,250,831	-8,865	4,287,234	-8,607,014	16,824	8,939,010
5	Transportation equipment - aircraft	484	0					0
6	Heavy work equipment	485	2,586,494	8,865	596,174	-2,487,305	4,823	709,051
7	Tools and other equipment	486/89/79	17,085,665		2,208,526	-2,227,458	6,701	17,073,434
8	Communication structures		2,403,108		145,185	-579,757		1,968,537
9	Communication equipment	488	7,243,960		927,207	-1,909,349		6,261,817
10			114,337,511	0	32,060,787	-40,046,224	18,988	106,371,063
11	Total Gas Plant carried forward		2,182,699,088	5,476,124	188,322,511	-82,500,518	-4,811,949	2,289,185,255
12	Total gas plant in service		2,182,699,088	5,476,124	188,322,511	-82,500,518	-4,811,949	2,289,185,255
13	ARO (Asset Retirement Obligation)		-54,537,338	66,751,383		-18,404		12,195,641
14	Negative Salvage		0	-486,058,294				-486,058,294
15	Total		2,128,161,750	-413,830,787	188,322,511	-82,518,922	-4,811,949	1,815,322,602

UNREGULATED

UNION GAS LIMITED
Continuity of Accumulated Depreciation
Calendar Year Ending December 31, 2009

Line No.	Particulars ($000's)	O.E.B. No.	Balance Dec. 31/08 (a)	Transfers (b)	Provisions (c)	Retirements (d)	Net Salvage /(Costs) (e)	Balance Dec. 31/09 (f)
	Gas Plant in Service:							
	Underground storage plant:							
1	Land rights	451	5,351,971		462,689			5,814,660
2	Structures & improvements	452	4,455,766	6,441	312,709	-24,183		4,750,733
3	Wells and lines	453/4/5	16,219,443		1,755,197	-13,592		17,961,049
4	Compressor equipment	456	25,057,715		3,008,414	-522,609		27,543,521
5	Measuring & regulating equipment	457	7,430,315		725,768			8,156,083
6			58,515,211	6,441	6,264,778	-560,383	0	64,226,046
	General plant:							
13	Structures & improvements	482	524,007		28,057	-15,188		536,876
14	Office furniture & equipment		302,423		31,181	-59,132		274,472
15	Office equipment - computers		1,322,373		659,527	-654,637	9,360	1,336,623
16	Transportation equipment	484	622,035	-418	202,016	-405,566	793	418,860
17	Transportation equipment - aircraft	484	0					0
18	Heavy work equipment	485	121,873	418	28,092	-117,203	227	33,407
19	Tools and other equipment	486/89/79	520,763		66,429	-66,998	-6,701	513,493
20	Communication structures		70,414		4,238	-17,438		57,214
21	Communication equipment	488	217,866		27,889	-57,430		188,325
22			3,701,754	0	1,047,429	-1,393,592	3,679	3,359,270
23	Total Gas Plant carried forward		62,216,965	6,441	7,312,207	-1,953,975	3,679	67,585,316
24	ARO (Asset Retirement Obligation)		0					0
	Accumulated Amortization:							
25	Oil wells and equipment	496						0
26	Total		62,216,965	6,441	7,312,207	-1,953,975	3,679	67,585,316

UNION GAS LIMITED
Continuity of Accumulated Depreciation
Calendar Year Ending December 31, 2009

Line No.	Particulars ($000's)	O.E.B. No.	Balance Dec. 31/08	Transfers	Provisions	Retirements	Net Salvage /(Costs)	Balance Dec. 31/09
			(a)	(b)	(c)	(d)	(e)	(f)
	Gas Plant in Service:							
	Intangible Plant:							
1	Franchises and consents	401	1,083,938	0	82,139	-780,456	0	385,621
2	Intangible Plant - other	402	8,060,037	0	122,707	-3,000,000	0	5,182,744
3			9,143,974	0	204,846	-3,780,456	0	5,568,365
	Local Storage Plant							
4	Land	440	0	0	0	0	0	0
5	Structures and improvements	442	2,376,472	-93,807	84,400	0	0	2,367,066
6	Gas holders - storage	443	4,393,931	93,807	121,229	0	0	4,608,967
7	Gas holders - equipment	443	6,525,048	816,022	300,674	0	-17,066	7,624,679
8			13,295,451	816,022	506,303	0	-17,066	14,600,711
	Underground storage plant:							
9	Land rights	451	14,207,586	0	1,177,122	0	0	15,384,708
10	Structures & improvements	452	25,306,115	95,480	1,586,098	-214,119	245	26,773,818
11	Wells and lines	453/4/5	47,348,363	0	4,070,231	-70,565	-119	51,347,910
12	Compressor equipment	456	133,395,520	3,140	10,098,904	-2,830,871	-137,833	140,528,860
13	Measuring & regulating equipment	457	38,497,825	0	2,802,349	-2,222	6,000	41,303,953
14			258,755,409	98,620	19,734,704	-3,117,777	-131,707	275,339,249
	Transmission plant:							
15	Land rights	461	7,576,954	321,930	719,194	-451,927	0	8,166,151
16	Structures & improvements	462/3/4	23,291,038	154,342	1,400,803	-60,901	-112,258	24,673,025
17	Mains	465	353,653,736	4,310,916	24,108,904	-8,210,995	-10,119	373,852,441
18	Compressor equipment	466	76,287,393	0	10,470,068	-7,005,563	74,036	79,825,934
19	Measuring & regulating equipment	467	56,016,697	655,891	4,998,148	-2,504,108	-9,581	59,157,047
20			516,825,817	5,443,079	41,697,118	-18,233,494	-57,922	545,674,598

UNION GAS LIMITED
Continuity of Accumulated Depreciation
Calendar Year Ending December 31, 2009

Line No.	Particulars ($000's)	O.E.B. No.	Balance Dec. 31/08	Transfers	Provisions	Retirements	Net Salvage /(Costs)	Balance Dec. 31/09
			(a)	(b)	(c)	(d)	(e)	(f)
	Distribution plant - Southern Operations							
1	Land rights	470	988,427	0	86,691	0	0	1,075,118
2	Structures & improvements	471	40,899,131	-32,433	2,594,381	-138,204	854	43,323,729
3	Services - metallic		96,994,885	0	4,077,362	-1,346,384	-576,962	99,148,902
4	Services - plastic	472	248,777,678	-68,899	22,887,739	-1,821,457	-296,624	269,478,438
5	Regulators	473	26,701,594	0	2,301,887	0	0	29,003,481
6	Regulator & meter installations	474	22,290,143	1,060	2,185,619	-137,168	-249	24,339,404
7	Mains - metallic		200,225,155	0	9,930,248	-1,848,788	-2,725,015	205,581,600
8	Mains - plastic	475	135,379,272	0	11,262,324	-755,295	-226,642	145,659,658
9	Measuring & regulating equipment	477	13,474,284	0	1,311,723	-72,260	-82,025	14,631,722
10	Meters	478	59,500,293	46,038	6,450,347	-6,306,052	155,852	59,846,478
11			845,230,861	-54,235	63,088,321	-12,425,608	-3,750,811	892,088,528
	Distribution plant - Northern & Eastern Operations							
12	Land rights	471	2,751,802	0	148,520	0	0	2,900,322
13	Structures & improvements	472	18,326,853	230,393	1,594,746	-337,111	0	19,814,882
14	Services - metallic		56,937,474	0	3,293,896	-515,846	-527,641	59,187,883
15	Services - plastic	473	132,774,393	68,626	10,865,108	-234,355	-68,467	143,405,305
16	Regulators	474	9,612,252	0	831,529	0	457	10,444,238
17	Regulator & meter installations	474	8,166,682	0	1,000,370	-53,159	-978	9,112,916
18	Mains - metallic		131,140,421	0	8,622,560	-717,092	-198,881	138,847,008
19	Mains - plastic	475	62,631,145	0	4,514,293	-45,922	-30,611	67,068,905
20	Compressor Equipment	476	1,141,318	-816,022	19,507	-344,803	0	0
21	Measuring & regulating equipment	477	42,947,471	-303,918	4,543,303	-891,432	-53,153	46,242,271
22	Meters	478	17,195,462	0	1,861,380	-2,317,624	5,841	16,745,058
23	Other distribution equipment	479	0	0	0	0	0	0
24			483,625,275	-820,921	37,295,211	-5,457,343	-873,432	513,768,789

UNION GAS LIMITED
Continuity of Accumulated Depreciation
Calendar Year Ending December 31, 2009

Line No.	Particulars ($000's)	O.E.B. No.	Balance Dec. 31/08	Transfers	Provisions	Retirements	Net Salvage /(Costs)	Balance Dec. 31/09
			(a)	(b)	(c)	(d)	(e)	(f)
	General plant:							
1	Structures & improvements	482	17,947,023	0	960,841	-520,173	0	18,387,691
2	Office furniture & equipment		10,357,893	0	1,067,852	-2,025,065	0	9,400,679
3	Office equipment - computers		45,611,340	0	22,586,533	-22,419,059	0	45,778,815
4	Transportation equipment	484	13,872,866	-9,283	4,489,250	-9,012,580	17,617	9,357,870
5	Transportation equipment - aircraft	484	0	0	0	0	0	0
6	Heavy work equipment	485	2,708,367	9,283	624,266	-2,604,508	5,050	742,458
7	Tools and other equipment	486/89/79	17,606,428	0	2,274,955	-2,294,456	0	17,586,927
8	Communication structures		2,473,522	0	149,423	-597,195	0	2,025,751
9	Communication equipment	488	7,461,826	0	955,096	-1,966,779	0	6,450,142
10			118,039,265	0	33,108,216	-41,439,816	22,667	109,730,333
11	Total Gas Plant carried forward		2,244,916,053	5,482,565	195,634,718	-84,454,494	-4,808,270	2,356,770,572
12	ARO (Asset Retirement Obligation)		-54,537,338	66,751,383	0	-18,404	0	12,195,641
13	Negative Salvage	496	0	-486,058,294	0		0	-486,058,294
14	Total		2,190,378,715	-413,824,346	195,634,718	-84,472,898	-4,808,270	1,882,907,919

	$000s
Earnings Before Interest and Taxes	90,052
Financial Expenses	11,752
Income before income taxes	78,300
Income taxes @ 33%	25,839
Preferred dividend requirements	178
Unregulated earnings	52,283
Long-term storage premium subsidy to ratepayers (after tax)	(7,171)
Short-term storage premium subsidy to ratepayers (after tax)	(7,540)
	(14,711)
Net earnings from unregulated business	37,572
Unregulated storage investment	268,229
Equity component @ 36%	96,562
Return on equity	38.91%

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers and Exporters ("CME")

References: Exhibit A, Tab 4; Exhibit A, Tab 2, Appendix B, Schedule 1

The evidence at Exhibit A, Tab 2, Appendix B, Schedule 1 indicates that, for the year ending December 31, 2009, Union's Non-utility storage earnings before interest and taxes of $90.052M were realized on Non-utility storage revenues of $119.909M. This represents earnings before interest and taxes in an amount that is approximately 75% of revenues.

a) What Return on Equity ("ROE") did Union earn on its unregulated storage assets in the fiscal period ending December 31, 2009?

Response:

The return on equity for Union's unregulated storage operations does not have any relevance to the issue of allocation of costs between Union's regulated and unregulated storage operations for the purposes of calculating earnings sharing or deferral accounts.

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers and Exporters ("CME")

References: Exhibit A, Tab 4; Exhibit A, Tab 2, Appendix B, Schedule 1

We are interested in determining the sensitivity of the earnings sharing amount allocable to ratepayers and the calculation of the ratepayers share of storage margins in a scenario where the Board determines that additional costs should be shifted from Utility storage and allocated to Non-utility storage. For illustrative purposes, assume that the Board finds that another $10M of costs should be shifted from Utility to Non-utility storage.

a) Please show how a shift of $10M of costs from Utility to Non-utility storage would affect the ratepayers portion of Earnings to be shared and the ratepayers share of storage margins, subject to deferral as described in Exhibit A, Tab 4, page 1, lines 19 to 21.

Response:

A $10 million increase in the allocation of costs to the unregulated business would cause an increase in Union's return on equity from 11.22% to 11.76%. The revised pre-tax earnings sharing amount would be $14.228 million, an increase of $7.165 million.

A $10 million increase in the allocation of costs to the unregulated business would decrease the storage related deferrals by $5 million since the long-term portion is shared 50/50 for 2009.

The net impact in favour of ratepayers would be $2.165 million.

UNION GAS LIMITED

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

Ref: Exhibit A., Tab 1, page 3

UDC Recovery in Rates

a) What were the circumstances that lead to the respective differences from forecast in each Operating Area?

b) What was done to mitigate UDC in each Operating Area?

c) What would the cost be to each Operating Area if the difference from forecast was used as the deferral account balance?

d) Why is Union proposing allocating the total in proportion to the percentage of total excess as opposed to the difference from forecast for each respective area?

Response:

a) Forecast UDC was allocated to the North and South based on the planned UDC determined in the Gas Supply Plan used in setting 2007 rates. Actual UDC was allocated to the North and South based on the respective percentages of total UDC derived from the then current 2009 – 2013 Gas Supply Plan.

b) Unfilled pipe was sold on the secondary market in order to minimize UDC costs. Revenues generated from the transportation releases were credited to the UDC deferral account to mitigate UDC.

c) If the difference from forecast was used as the deferral account balance, the credit to the Northern Operations area would increase by $32,000, and the debit to the Southern Operations would increase by $8,000.

d) As noted at Exhibit A, Tab 3, pages 1- 2, Union proposes to allocate the total UDC related to the Northern and Eastern Operations area in proportion to the percentage of total excess since this allocation is consistent with the allocation of UDC in Board approved 2007 rates (EB-2005-0520, Rate Order Working Papers, Schedule 25, page 3).

UNION GAS LIMITED

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

Ref: Exhibit A, Tab 1, page 7

Please define the service described in the following and provide the percentage deliverability associated with the service and the reason for the allocation of its revenues to Long-Term Peak Storage Services.

a) High Deliverability Storage

b) T1 Deliverability

c) Upstream Balancing

d) Downstream Balancing

e) Storage Compression

Response:

The service definitions are as follows:

a) High deliverability Storage - allows Shippers to hold a minimum amount of inventory but withdraw or inject gas in high daily quantities on a firm basis.
b) T1 Deliverability (incremental to cost based T1 Delilverability) – allows Shippers to contract for injections and withdrawals greater than the maximum level of deliverability available at cost based rates.
c) Upstream Balancing – allows Shippers to balance rateable (evenly) flows arriving at Dawn (includes purchased gas supplies, withdrawals from storage, or gas arriving from upstream pipelines) with non-rateable downstream consumption requirements.
    - Note – this is a separate service from T1 Deliverability. A comma was missing in the evidence
d) Downstream Balancing - a balancing service designed for Shippers who have very short notice delivery requirements (15 minutes notice) at Parkway/Kirkwall.
e) Storage Compression – an elective compression service for third party storage operators.

Each of these services use at least one component of Dawn area assets, including space, firm or interruptible injections, firm or interruptible withdrawals, and the associated compression. The allocation of storage space, injections and withdrawals are negotiated for each service, but injections and/or withdrawals usually fall within a range of 1.2% to 10% of the contracted space. The revenues for these services are allocated to Long-Term Peak Storage Services since these contracts are greater than 2 years.

UNION GAS LIMITED

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

Ref: Exhibit A, Tab 1, page 7

Please show a reconciliation of customer rebates as designed in rates and the corresponding disbursements (including volumetric forecasts and actuals) for 2007 and 2008.

Response:

The customer rebates account no. 179-26 is used to capture amounts resulting from rebates/charges to customers in the general service market that cannot be located. In 2007 and 2008 the deferral disposition was processed prospectively; there were no amounts captured in this account.

UNION GAS LIMITED

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

Ref: Exhibit A, Tab 1, page 11

Where does the credit balance of $7.615 million get transferred to upon closing Account No. 179-102?

Response:

The credit balance of $7.615 million was not transferred upon closing of Account No. 179-102. The disposition of the credit balance in this account is discussed at Exhibit A, Tab 3, pages 3-4. This approach reflects the Board's September 18, 2009 Decision in EB-2008-0106 in which the Board ordered that:

> *"Union shall close the Intra-[Period] WACOG deferral account as of December 31, 2009 and shall adjust delivery rates quarterly to account for changes in the carrying costs of gas in inventory, compressor fuel and UFG. Any balance accumulated in the Intra-Period WACOG deferral account prior to delivery rates being adjusted shall be disposed as part of the annual deferral account disposition proceeding."*
> *[Page 37emphasis added]*

Deferral Account No. 179-02 was closed effective December 31, 2009.

UNION GAS LIMITED

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

Ref: Exhibit A, Tab 1, Page 22 & EB-2008-0411 FRPO IR #6 and Undertakings J1.1. and J1.2

Please file the above reference documents from EB-2008-0411 and extend each of the tables to include actual figures from 2009.

Response:

Please see attachments 1, 2 and 3, updated to include 2009.

MichCon-Union Gas Interconnect
Receipt at St. Clair Valve Site

Year	Total Qty GJ	Avg. Qty/ Day GJ/d	Avg. Qty As a % of Daily Cap.	Net Deprec. Value (Pipe) (000's)	Revenue[1] (000's)	OEB Approved Rate of Return
2003	12,871,981	35,266	16.5%	$6,961	$400	9.95% [2]
2004	7,734,450	21,190	9.9%	$6,710	$836	9.62% [3]
2005	7,109,431	19,478	9.1%	$6,433	$642	9.62%
2006	1,933,078	5,296	2.5%	$6,155	$297	9.62%
2007	3,654,821	10,013	4.7%	$5,877	$120	8.54% [4]
2008	10,504,332	28,779	13.4%	$5,738	$542	8.54%
2009	9,134,585	25,026	11.7%	$5,461	$699	8.54%

Notes:

1. Revenue associated with Firm and Interruptible Transport, net of unaccounted for gas and excluding compressor fuel.
2. RP-1999-017 Decision with Reason, 2001 July 21, 2.5.6 Return on Equity Adjustment (ROE Adjustment).
3. EB-2005-0520, Exhibit E6, Tab 1, Schedule 1, Line 5.
4. EB-2005-0520, Rate Order, Working Papers, Schedule 3, Line 18.

Union Gas Limited
St. Clair Line

2003-2009 Net Revenues and Estimated Operating Costs
($ 000's)

	2003	2004	2005	2006	2007	2008	2009
Net Revenue	400	836	642	297	120	510	699
Operations							
St. Clair River crossing toll *	342	342	342	342	342	342	342
Operations and maintenance	24	25	26	26	27	28	29
Insurance	11	12	12	12	13	13	13
Property taxes	100	96	96	92	94	95	95
Capital taxes	21	20	19	18	17	4	4
Depreciation	275	277	278	278	278	276	278
Total operating expenses	$773	$771	$773	$769	$771	$758	$760
EBIT	-$373	$65	-$131	-$472	-$651	-$248	-$61

* Cost based on the September 16, 1996 agreement between St. Clair Pipelines (1996) Ltd. and Union

Using the revenue and estimated operating expenses filed with the Market Valuation report and Union's response to Undertaking J1.1, the calculation of rate of return on common equity of the St. Clair Line assets would be:

2003	-20%
2004	-9%
2005	-14%
2006	-24%
2007	-28%
2008	-16%
2009	-11%

Undertaking J1.1 only shows EBIT while the returns in J1.2 are based on net income applicable to common equity. There were operating losses in five of the six years but there were negative returns in all years when interest and income taxes are considered.

Union confirms that the allocation of costs used to determine its response to Exhibit B1.08 is consistent with the methodology used to allocate costs in the Market Valuation report.

UNION GAS LIMITED

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

Ref: Exhibit A, Tab 1, page 13

For each of the preceding 5 years in advance of the change to Late Payment Penalty by Union, please provide the value of late payment penalty that contributed to rate making for that year and the actual value collected for that year.

Response:

In RP-2002-0130, Union's 2003 Customer Review Process ADR dated January 20, 2003 a complete settlement was reached on Union's proposal to reduce the late payment from a one-time charge of 2% to a charge of 1.9% compounded monthly for General Service R01, R10 and M2 rate classes. This LPP policy was standardized across all in-franchise rate classes as per the Board-approved ADR agreement in RP-2003-0063, dated September 19, 2003.

For each of the preceding 5 years in advance of the change to Late Payment Penalty by Union, the value of late payment penalty revenue reflected in Board-approved rates and the actual revenue collected is summarized in the table below.

($000's)	1998	1999	2000	2001	2002
Late Payment Penalty Amounts included in Rate Making	6,905	7,980	7,980	7,980	7,980
Actual Late Payment Penalty Amounts Collected	8,011	6,971	9,810	15,158	10,240

The amounts shown above are separate and distinct from the proposed recovery of the 2009 Late Payment Penalty Litigation Cost balance in Account No. 179-113.

UNION GAS LIMITED

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

Ref: Exhibit A, Tab 4, page 4

Please provide a specific description with some key figures to describe the allocation of fuel gas to the unregulated storage operations. In this response and calculation, please also include answers to the following:

a) What is Union's regulated storage volume?

b) How is UFG allocated to Union's regulated storage volume?

c) In the 2007 forecast, how much UFG was allocated to storage? How much to transportation?

d) What are the specific quantities for total storage and total transportation that form the 2,245,003,295,000 m3?

Response:

a) 328,091,382 GJs.

b) UFG is allocated to unregulated storage operations based on the ratio of unregulated storage activity to total activity. The UFG allocated to regulated operations is not split between storage and transportation.

c) The allocation of UFG in Union's 2007 Board-approved cost study is provided in the table below.

Allocation of UFG in 2007 Board-approved Cost Study

Line No.	Function	Volume (10^3m^3)	Costs ($000's)
1	Transportation	35,905,627	41,974
2	Storage	8,939,390	10,450
3	Total	44,845,018	52,424

d) Activity at Dawn included in the total is 629,285,352 GJs.

UNION GAS LIMITED

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

Ref: Exhibit A, Tab 4, page 5

What unit of measure is used to calculate storage activity? Does it include an assumption of one cycle or multiple cycles?

Response:

Storage activity is measured in GJs. Allocations of cost of gas are based on actual activity levels. Accordingly, no assumptions of the number of cycles are necessary.

UNION GAS LIMITED

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

Ref: Exhibit A, Tab 4, page 9

Dawn Plant E

a) What was the original justification for Dawn Plant E?

b) When did the comprehensive review take place?

c) Was the review approved by the Board?

Response:

a) Plant E was constructed to transport gas from the Dow-Moore Storage pool into the Dawn Trafalgar system, raising the pressure from 700 psig to 895 psig.

b) The review of assets and allocations to implement the Board's findings from the NGEIR decision was concluded May 14, 2008.

c) Union is requesting the Board to approve the results of the allocations as part of this proceeding.

UNION GAS LIMITED

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

Ref: Exhibit A, Tab 4, pages 9, 10

Compressor Ratios

a) What factors drove the shift described that resulted in the adjusted factor moving from 56.6% to 53%?

b) Do the figures presented include the compression required to provide high deliverability storage added in 2008 and 2009?

c) What would the horsepower factor for storage be if the above compression and any transmission additions were incorporated for the years of 2008 and 2009?

d) Did the determination of 37.7% incorporate the storage compression additions in b)?

e) If additions in b) were not included, please provide a table that calculates an unregulated factor for storage compression assets at Dawn.

Response:

a) The horsepower allocation factor shifted from 44.4% (2007 Board-approved) to 52.7%. This shift was due to removing Dawn compression that was directly assigned to transmission and removing outboard compression assets that were assigned directly to storage. Please refer to Exhibit A, Tab 4, Schedule 3 for this calculation.

b) No, the horsepower allocation outlined in the evidence was applied to 2007 assets and does not include 2008 and 2009 additions.

c) Union's allocation of assets was completed based on 2007 parameters. All new storage development will be attributed 100% to the unregulated storage operations as outlined in the evidence Exhibit A, Tab 4, page 14.

d) The unregulated factor of 37.7% was determined with and applied to assets existing at the end of 2007 and does not include 2008 and 2009 additions.

e) The horsepower (HP) allocator is applied Dawn compression related assets that are used to provide both storage and transmission service. The addition of storage compression assets does not change that allocation as the new storage compression assets are directly assigned to the unregulated operation.

UNION GAS LIMITED

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

Ref: Exhibit A, Tab 4, page 11

Given the methodology and the figures described in for measurement and regulation, what percent of these assets are allocated to the regulated storage operations?

Response:

The allocation factors used to allocate measurement and regulation related costs between Union's regulated and unregulated operations depends on whether the assets are deemed to be used for storage only, storage & transmission or non-storage. The following table provides the allocation factors used to allocate the costs associated with measurement and regulation between the regulated and unregulated operations.

	Regulated	Unregulated
Storage	62.3%	37.7%
Storage & Transmission	90.1%	9.9%
Non-Storage	100.0%	0.0%

UNION GAS LIMITED

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

Ref: Exhibit A, Tab 4, page 11

What was the value of construction work in progress was omitted from the calculation for unregulated storage plant? Union's total plant?

a) What would the percentage of unregulated storage plant to Union's total plant if the construction work in progress was included?

b) Using the same methodology used to determine the storage O&M allocator of 2.52%, what would the storage O&M allocator be using the final 2009 figures?

Response:

Construction work in progress for 2007 omitted from the calculation for the General Allocator was $156,962,253. Union's 2007 total plant was $5,638,479,400.

a) If CWIP is included, the percentage of Unregulated Storage to Total Plant would be 3.64%

General Plant Allocator

Total Plant (Dec 31, 2007 - excluding ARO, and General Plant)	$5,355,728,131
Total Unregulated Storage (Dec 31, 2007 - excluding ARO and General Plant))	$194,741,771
% Unregulated Storage to Total Plant	3.64%

b) Using the same methodology, total unregulated O&M as a percentage of total net O&M the 2009 allocator would be 3.09%.

UNION GAS LIMITED

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

Ref: Exhibit A, Tab 4, page 15

Please replicate Table 3 showing the Regulated Storage O&M Activity that would be calculated using the same methodology as for Unregulated.

Response:

Union does not have the information available to show regulated storage O&M. The reporting system was designed to identify costs for the unregulated storage operations to be separated from total cost but not to separate the remaining regulated costs between storage, transmission and distribution.

UNION GAS LIMITED

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

Ref: Exhibit A, Tab 4, pages 16, 17

In Table 4, please expand the table to include Regulated Storage O&M.

a) Please provide the Business Development activities for Regulated Storage O&M?

b) What are the main factors that contribute to the costs associated with Business Development for Regulated Storage O&M?

Response:

a) Please see the response at Exhibit B4.14.

b) The activities included in the business development total that support the regulated operations include:
   - Billing and customer support for contract customers
   - Gas management services
   - Ex-franchise transportation sales
   - Product development
   - Gas supply and transportation planning and acquisitions
   - Capacity management
   - Gas control

UNION GAS LIMITED

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

Ref: Exhibit A, Tab 4, pages 17, 18 and EB-2009-0101 Exhibit B, Tab 3, Sch. 2

Cost of 7.9PJ’s of Excess In-franchise Storage Capacity

a) Lines 2 to 4 of page 18 stat “In order to ensure there is no cross-subsidization between regulated and unregulated storage, the costs associated with the excess storage are charged to the unregulated business”. Please reconcile this statement with the response provided in EB-2009-0101 EX B., TAB 3, SCH 2 that communicate a shift of demand costs between the short-term and long-term accounts.

Response:

In EB-2009-0101, Union clarified that the excess storage space was being sold as short-term storage following the NGEIR decision. Prior to the NGEIR Decision, this space was forecasted as long-term storage.

In EB-2010-0039, Union is clarifying that, although the excess space forms part of the in-franchise storage, it is being sold as short-term storage. Therefore, all of the costs are being allocated to the unregulated business.

UNION GAS LIMITED

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

Ref: Exhibit A, Tab 4, Sch. 2 and page 7

To the submitted schedule, please present the percent deliverability to 3 significant figures and add a column for percent deliverability from storage (actual deliverability/space). To that schedule, please add the figures for storage space and deliverability for each of 2008 and 2009. For ease of depiction, please eliminate the figures for dehydration.

a) When the NGIER decision was adjusted for, on what basis was the deliverability allocated, cost or proportionate allocation of available deliverability? Or other means?

Response:

Please see the attachment.

Exhibit A, Tab 4, Schedule 2 provides the derivation of unregulated allocation factors used to separate underground storage assets. Per the NGEIR decision, the Board-approved 2007 cost allocation study (adjusted for 100 PJs of in-franchise storage capacity) was the basis for the separation of existing storage assets between Union's regulated and unregulated operations.

The one-time separation of these assets occurred December 31, 2007. The 2008 and 2009 storage space and deliverability figures are not relevant to the separation of existing storage assets, and as such, have not been provided.

a) Consistent with the Board-approved 2007 cost allocation study, deliverability was allocated on design day demands from storage (the NETFROMSTOR allocator) in the cost study adjusted to reflect the NGEIR decision.

UNION GAS LIMITED
Derivation of Unregulated Allocation Factors to Separate Existing Storage Assets

Line No.	Particulars	Storage Space [1] PJs (a)	Storage Space [1] % (b)	Storage Deliverability PJs (c)	Storage Deliverability % (d)	Deliverability from Storage % (e) = (b) / (d)
	2007 Board-approved Cost of Service EB-2005-0520 [2]					
1	Ex-franchise	70.0	45.303%	0.9	39.160%	1.320%
2	In-franchise	84.0	54.697%	1.4	60.840%	1.709%
3		154.0		2.4		1.532%
	2007 Board-approved Cost of Service; Adjusted for EB-2005-0551 [3]					
4	Unregulated	62.1	40.183%	0.8	35.141%	1.335%
5	In-franchise	91.8	59.817%	1.5	64.859%	1.667%
6		154.0		2.4		1.532%
	Difference					
7	Unregulated	(7.9)	-5.120%	(0.1)	-4.019%	1.200%
8	In-franchise	7.9	5.120%	0.1	4.019%	1.200%
9		0.0		0.0		0.000%

(1) Storage space allocators exclude space used for system integrity and include space deemed unavailable.

(2) EB-2005-0520, Exhibit G3, Tab 5, Schedule 24, Page 5.

(3) The in-franchise storage space requirements reflect the reserve amount of 100 PJs. The adjustment of 7.9 PJs of space assumes 1.2% deliverability.

UNION GAS LIMITED

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

Ref: Exhibit A, Tab 4, Sch. 2

Historically, Union has presented system integrity space has three separate components or functions. For each of the respective components, please provide the allocation of system integrity space to regulated and unregulated storage operations along with a rationale for each allocation.

Response:

a) The in-franchise storage space shown in EB-2010-0039, Exhibit A, Tab 4, Schedule 2, line 5, column (a) is the regulated storage capacity of 100 PJs less system integrity space of 9.7 PJs plus space deemed unavailable of 1.5 PJs.

b) As per Union's Board-approved 2007 cost study, there are 9.7 PJs of system integrity space. As shown in EB-2005-0551, Exhibit J5.02, Attachment 1, page 2, system integrity space is included in the 100 PJs of regulated storage capacity. System integrity costs have been allocated solely to the regulated storage operations.

UNION GAS LIMITED

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

Ref: EB-2009-0101 Exhibit J1.5

Using the format and line items of the table provided in the above reference, please edit the table to replace 2009 Forecast with 2009 Actual and add a column for Variance between 2007 Board Approved and 2009 Actual.

i) Beside each line item of the actual figures for each respective year, please add a column that calculates percentage difference from 2007 Board approved

ii) In addition, for each line item of actual figure for each respective year, please add a column that calculates the percentage that each actual revenue or cost represents as compared to the total revenue for the year

iii) Further beside each line item for each respective year, please include the quantity and measure of activity that was used to forecast the 2007 Board Approved figures and then for the actual measure of activity for each actual year figures

---

Response:

Please see the response at Exhibit B1.01 and Exhibit B1.02.

UNION GAS LIMITED

Answer to Interrogatory from
Industrial Gas Users Association ("IGUA")

Ref: Exhibit A, T1, page 2, lines 1 through 7

The evidence refers to a review conducted by Union which resulted in determination that a deferral disposition true-up mechanism was not warranted.

Please provide a description of the review conducted, including the method of the review, the period reviewed and the over/under recoveries of deferred amounts in each year of the period reviewed.

Response:

Please see the response at Exhibit B2.1.

UNION GAS LIMITED

Answer to Interrogatory from
Industrial Gas Users Association ("IGUA")

Ref: Exhibit A, T1, page 6, lines 5 to 6

The evidence indicates that the short term storage revenues shared with customers are net of variable costs for providing the short term storage services.

a) Please restate Table 2 (Exhibit A/T1, page 8) to; i) break out the "2008 Total" column between short term and long term, as done for 2009; and ii) add similar columns (short term and long term) for 2007. Please identify any changes in cost allocation methodology that would explain any material changes apparent, year over year, to the allocations reflected in the revised table.

b) Was all excess storage capacity utilized in the provision of short term services in 2009? If not; i) what proportion of excess storage remained unsold; and ii) was there an allocation of variable costs to this unsold portion of excess storage?

Response:

a) Please see the response at Exhibit B1.01 and Exhibit B1.02. There have been no changes in cost allocation methodologies, year over year.

b) Yes, all excess in-franchise storage capacity was sold short-term.

UNION GAS LIMITED

Answer to Interrogatory from
Industrial Gas Users Association ("IGUA")

Ref: Exhibit A, T1, page 12, Table 3

The 2009 DSM "overspend" for the Distribution Contract rate class was 18.66% of budget.

Please detail how the incremental funds were spent, and with what reported incremental results.

Response:

The incremental funds spent for the Distribution Contract rate class were spent on incentives, generating incremental TRC and m^3 savings, as indicated below in the table.

Distribution Contract	Net TRC (millions)	M^3 Savings (10^6m^3)
2009 Unaudited Results	$229.422	70.38
2009 Plan	$124.000	41.30
Variance	$105.422	29.08

UNION GAS LIMITED

Answer to Interrogatory from
Industrial Gas Users Association ("IGUA")

Ref: Exhibit A, T1, pages 20 and 21

The evidence references an employee cost component of IFRS transition costs totalling $398,000 for 2008 and 2009.

a) How many Union employees were engaged on this project on a full time basis (i.e. without performing any duties not related to the IFRS transition project) during the relevant period? From which departments were these employees seconded? Were these positions replaced within the originating departments, and if so by hiring or by other arrangements?

b) How many Union employees were engaged on this project on a part time basis (i.e. while still performing other, non IFRS transition related duties)? How were these part time secondments managed within the originating departments?

Response:

Please see the response at Exhibit B1.06.

UNION GAS LIMITED

Answer to Interrogatory from
Industrial Gas Users Association ("IGUA")

Ref: Exhibit A, T2, page 2

The evidence indicates an increase in operating expenses of $7 million, driven primarily by an increase in depreciation of $6.9 million.

a) What drove the increase in depreciation?

b) What is the impact of this increase in depreciation plus any capital investments driving this increase on earnings sharing?

Response:

a) Capital additions drove the increase in depreciation in 2009.

b) The impact of the increase in depreciation on earnings sharing is:

($millions)	
Higher depreciation expense	($ 6.9)
Lower income taxes	$ 5.4
Lower earnings subject to sharing	($ 1.5)
Earnings sharing %	x 50%
Impact on earnings sharing	($ 0.750)

UNION GAS LIMITED

Answer to Interrogatory from
Industrial Gas Users Association ("IGUA")

Ref: Exhibit A, T2, page 10

The evidence indicates that the short and long-term storage premiums credited to rate payers under the NGEIR sharing formulas are added to utility earnings for the purposes of calculating earnings sharing.

What would be the net impact in earnings sharing of not adding these ratepayer credits to earnings subject to sharing? (Please show the relevant calculations.)

Response:

As per the attached the net impact would be to lower the ROE to 10.05% which is lower than the 10.47% threshold.

UNION GAS LIMITED
Earnings Sharing Calculation
Year Ended December 31, 2009

Line No.	Particulars ($000's)	2009 (a)	Non-Utility Storage (b)	Adjustments (c)		2009 Utility (d)=(a)-(b)+(c)
	Operating Revenues:					
1	Operating revenue	$ 1,699,503	$ -	$ -		$ 1,699,503
2	Storage & Transportation	299,108	119,909	(1,874)	i	177,325
3	Other	35,760	-	(9,047)	ii	26,713
4		2,034,371	119,909	(10,921)		1,903,541
	Operating Expenses:					
5	Cost of gas	1,025,674	6,318	-		1,019,356
6	Operating and maintenance expenses	332,607	12,897	(1,646)	iii	318,064
7	Depreciation	194,485	7,312	-		187,173
8	Other financing	-	-	474	iv	474
9	Property and capital taxes	68,392	1,754	-		66,638
10		1,621,158	28,281	(1,172)		1,591,705
	Other					
11	Lobo C / Brantford-Kirkwall write off	(1,889)	-	-		(1,889)
12	Gain / (Loss) on sale of assets	(6,838)	(436)	6,402	v	-
13	Other	(1,094)	(1,094)			-
14	Gain / (Loss) on foreign exchange	(1,207)	(46)	-		(1,161)
15		(11,028)	(1,576)	6,402		(3,050)
16	Earning Before Interest and Taxes	$ 402,185	$ 90,052	$ (3,347)		$ 308,786
	Financial Expenses:					
17	Long-term debt					150,719
18	Unfunded short-term debt					606
19						151,325
20	Utility income before income taxes					157,461
21	Income taxes					28,767
22	Preferred dividend requirements					2,665
23	Utility earnings					126,029
24	Long term storage premium subsidy (after tax)					
25	Short term storage premium subsidy (after tax)					
26						-
27	Earnings subject to sharing					$ 126,029
28	Common equity					1,253,827
29	Return on equity (line 27 / line 28)					10.05%
30	Benchmark return on equity					10.47%
31	50% Earnings sharing % (line 29 - line 30, maximum 1%)					0.00%
32	90% Earnings sharing to ratepayer % (if line 31 = 1% then line 29 - line 30 - line 31)					0.00%
33	50% Earnings sharing $ (line 28 x line 31 x 50%)					-
34	90% Earnings sharing to ratepayer $ (line 28 x line 32 x 90%)					-
35	Total earnings sharing $ (line 33 + line 34)					-
36	Pre-tax earnings sharing (line 35 / (1 minus tax rate))					$ -

Notes:

i) Remove out of period accounting of C1 Margin rebate related to 2007

ii)	Shared Savings Mechanism	(8,879)
	Market Transformation Incentive	(500)
	Accounting adjustment	332
		(9,047)

iii)	Donations	(446)
	Remove out of period PST assessment related to prior periods	(1,200)
		(1,646)

iv) Customer deposit interest

v) Premium related to sale of St. Clair line

UNION GAS LIMITED

Answer to Interrogatory from
Industrial Gas Users Association ("IGUA")

Ref: Exhibit A, T3, page 5, lines 1 through 3

Union proposes to allocate the balance in the late Payment Penalty Litigation Deferral Account to rate classes in proportion to the allocation of the 2007 late payment revenue.

Was the allocation of the 2007 late payment revenue consistent with the manner in which late payment revenues were allocated to rate classes in previous years? (If not, please explain any differences.)

Response:

In Union's Board-approved 2004 cost allocation study, the late payment revenue was allocated to rate classes based on the weighted average number of customers.

In Union's Board-approved 2007 cost allocation study, the Board approved Union's proposal to eliminate the weighting of number of customers in the allocation factor used to allocate late payment revenue. The late payment revenue in the 2007 cost allocation study is allocated to rate classes based on the average number of customers.

UNION GAS LIMITED

Answer to Interrogatory from
Industrial Gas Users Association ("IGUA")

Ref: Exhibit A, T4, page 3

Union is seeking approval in this proceeding of an unregulated storage cost allocation methodology based on a 2007 cost allocation study.

a) Please file a copy of the 2007 study being relied on.

b) Please provide a consolidated list of the differences between the methodology reflected in the 2007 study and the methodology that Union proposes that the Board approve, and provide the rationale/evidentiary references for each such difference.

Response:

a) Through discussions and agreement with IGUA's counsel, Union has not filed the entire 2007 cost study. The 2007 cost study is comprised of numerous schedules and hundreds of pages of detailed numeric information. Union has filed the methodology underlying the 2007 cost allocation study (Exhibit G3, EB-2005-0520), and the associated appendices, that Union relies on in its evidence in this proceeding. Please see the attachment.

b) Please see the response at Exhibit B1.14.

UNION GAS LIMITED

COST ALLOCATION STUDY

DESCRIPTION OF METHODOLOGY

INTRODUCTION

The purpose of this evidence is to provide a summary description of the methodology followed to complete the cost allocation study used to support 2007 rate proposals. The cost allocation study is consistent with the studies that were approved by the Board and used in the past, including RP-2003-0063, for the Northern and Eastern Operations area ("North") and the Southern Operations area ("South"). Plant accounting and O&M records are being maintained for both operating areas.

The objective of the cost allocation study is to allocate the test year cost of service to customer rate classes for the purpose of acting as a guide to the rate design process. To allocate costs, the test year cost of service must be analyzed to determine the appropriate functionalization and classification of costs. The allocation of costs to individual rate classes is based upon these determinations.

The cost allocation study consists of three steps. These steps are:

1. Functionalization of costs to utility service functions
2. Classification of costs to cost incurrence (demand, commodity, customer)
3. Allocation of costs to rate classes

Once these steps have been completed, costs allocated to each rate class can be totalled and compared to the revenue achieved. A summary of the revenue requirement by rate class can be found at Exhibit G3, Tab 2, Schedule 2. Exhibit G3, Tab 1, Schedule 2 reconciles the total "Account Dollars" shown in Exhibit G3, Tab 2, Schedule 2 to the amounts in Exhibit F3, Tab 2, Schedule 1 Corrected.

Judgement is required in apportioning costs to the various functions and their sub-classifications. This judgement is based on the specific knowledge of how Union operates its system. As a result, a fully distributed allocation study is used to provide an indication of cost responsibility by rate class at a specific point in time, but cannot and should not be viewed as a precise measurement of the actual cost to serve a particular rate class, much less a particular customer.

The cost allocation study process is shown on page 18 of this exhibit.

1. Functionalization (Exhibit G3, Tab 3)

Functionalization, the first phase of the cost allocation study, involves associating asset and operating costs with the various utility service functions. There are four functions necessary to obtain and move gas to market that are generally accepted for gas distribution utility cost allocation studies - purchase and production of gas, storage, transmission and distribution. The direct cost of these functions can be obtained from the accounts of Union which are maintained using the Board's Uniform System of Accounts for Gas Utilities. To complete the functionalization step, indirect costs must be functionalized exercising judgement which is based on Union's knowledge of its operations.

Union's system of accounts functionalizes the cost of Dawn compression and storage pool facilities as storage. The cost allocation study recognizes that although the plant accounts record costs in the Dawn Station yard as storage, some of these facilities have been installed solely for transmission purposes. Based on information contained within Union's plant accounting records, Union functionalizes the cost of the following facilities as transmission:

26"/34"/42" Meter Runs:	Represents an investment in measuring & regulating equipment installed at Dawn to measure Dawn-Trafalgar transportation volumes.
Tecumseh Metering:	Represents an investment in measuring & regulating equipment installed at Dawn to measure Dawn-Trafalgar transportation volumes.
TCPL Measurement:	Represents an investment in structures & improvements, compressor equipment and measuring & regulating equipment installed to accept transportation volumes at Dawn.
Great Lakes Header:	Represents an investment in compressor equipment installed to accept transportation volumes at Dawn.
Oil Springs East Measurement:	Represents an investment in structures & improvements, and measuring & regulating equipment to provide custody transfer metering for volumes flowing between the Oil Springs East Pool and Dawn-Trafalgar transmission facilities.

The remaining compression and measuring / regulating costs at the Dawn facility are functionalized to both storage and transmission. These facilities are used to transport gas and to store it. Measuring / regulating costs are functionalized based on an analysis of use.

Compression rate base related costs are functionalized on the basis of horsepower requirements. The compression horsepower required to bring the pressure up to 4,926 kPa (700 psig) on design day is storage-related. The compression horsepower required to bring the pressure from 4,926 to 6,270 kPa (700 to 895 psig) on design day is transmission-related. This pressure alignment results from Union receiving gas from TCPL and Tecumseh at Dawn at 4,926 kPa (700 psig) and operating the Dawn-Trafalgar transmission system at 6,270 kPa (895 psig). Compression operating and maintenance ("O&M") costs are functionalized based on fuel requirements.

Where possible, costs are directly assigned to a functional area. Two methods are used to functionalize the remaining indirect rate base related costs:

a) In proportion to the functionalization of other rate base related cost items. These are costs that are closely related to rate base expenses and will vary depending upon the level of net plant. The indirect rate base functionalization factor is based on the total net plant in service less General Plant (which is functionalized based on a 50/50 weighted rate base / O&M factor), less Intangible Plant (which is directly assigned to the Distribution function.).
b) In proportion to the functionalization of operating and maintenance expenses. These are costs that are closely related to O&M expenses and will vary depending upon the level of O&M expenses. The indirect O&M functionalization factor is based on total O&M expenses for a particular function less compressor fuel costs that have been functionalized to that function.

General operating and engineering activity related expenses are functionalized primarily on the basis of an analysis of activities conducted by budget centre managers for their departments. Administrative & general group benefits expenses are functionalized on the basis of direct labour relationships. The remaining administrative and general expenses are functionalized in proportion to the functionalization of all other O&M expenses.

A summary of the functionalization of costs is provided at Exhibit G3, Tab 3, Schedule 1. Additional detail on depreciation expense, property taxes and labour costs is provided at Exhibit G3, Tab 3, Schedule 2 and Schedule 3. A functionalization factor table can be found at Exhibit G3, Tab 3, Schedule 4. Exhibit G3, Tab 1, Schedule 1, Appendix A provides a description of the functionalization factors.

2. CLASSIFICATION (Exhibit G3, Tab 4)

The second step of the cost allocation process separates functionalized asset and operating costs into classification categories according to cost incurrence. These categories are:

a) Demand: Costs that vary directly with the size (capacity) of the system facilities. They are required to meet design day demand and are fixed in the short run. For storage functions, this includes deliverability, space and system integrity space.

b) Commodity: Costs that vary directly with the volume of gas purchased or delivered. They are variable in the short run.

c) Customer: Costs that are not demand or commodity-related but relate more to providing services at customer locations or that vary with the number of customers. They are affected directly by the number of customers served.

Following is a summary of the classification of functionalized costs:

Purchase & Production

Purchase and production costs are classified as commodity and demand-related.

Storage Dehydrator

Dehydrator rate base related costs are classified as demand-related as the dehydrator was sized to handle peak day storage volumes. A portion of general plant functionalized to Storage Dehydrator is classified 50/50 between demand and commodity. Dehydration operating and maintenance costs are classified as commodity-related.

Storage Excluding Dehydrator

These are the costs of land, structures & improvements, measuring and regulating equipment, and compressor equipment that relate to the Dawn compression and storage facility. These costs are incurred to provide delivery from storage on design day and therefore are classified as demand-related (i.e., deliverability).

Costs associated with land rights, wells and lines, rents, joint ventures and communication equipment are incurred to provide both delivery from storage on design day and to provide capacity to store gas. These costs are classified as 50% deliverability-related and 50% space-related.

A portion of the cost of gas in storage inventory is classified as deliverability-related and a portion is classified as space-related. Union's design day requirements from storage are met by using a combination of compression and gas in storage. It is the cost of this design day inventory requirement that is classified as demand-related. The design day inventory requirement varies with design day demand from storage.

Base Pressure Gas is classified as 100% space-related. This is a permanent investment required to operate the storage pools.

Compressor fuel, unaccounted-for-gas ("UFG") and compressor station maintenance costs are classified as commodity-related.

Transmission - Dawn Station

Compressor fuel costs at Dawn Station are classified as commodity-related. Tecumseh metering costs are classified as customer-related. The remaining transmission costs are classified as demand-related.

Transmission - Dawn-Trafalgar Easterly

Compressor fuel costs are classified as commodity-related. With the exception of Oil Springs East Metering costs, the remaining transmission costs are classified as demand-related.

Transmission - Dawn-Trafalgar Westerly

Compressor fuel costs are classified as commodity-related.

Other Transmission

Other transmission costs are classified as demand-related.

Ojibway / St. Clair Transmission

Compressor fuel costs are classified as commodity-related. The remaining transmission costs are classified as demand-related with some general plant costs classified as commodity-related.

Distribution

The distribution system provides capacity to meet customer demand and access to customers. It is necessary to analyze distribution costs to determine those costs that are related to having the customer on the distribution system (i.e., customer-related) versus those costs related to the capacity to serve the customer's design day demand.

The minimum plant method segregates distribution main costs into demand or customer-related classifications by using the size of main and operating pressures. Joint-use and sole-use mains as defined in the North are classified to demand. Compressor and measuring & regulating equipment are classified as demand-related. Land, land rights and structures & improvements follow the classification of the preceding asset categories. Services, meters and customer stations are classified as customer-related.

Demand side management costs are classified as demand-related while other advertising costs are shared between commodity-related and customer-related.

A summary of the classification of costs by function is provided at Exhibit G3, Tab 4, Schedules 1 through 9. A classification factor table can be found at Exhibit G3, Tab 4, Schedule 10. Exhibit G3, Tab 1, Schedule 1, Appendix B provides a description of the classification factors.

3. ALLOCATION (Exhibit G3, Tab 5)

The third step in the cost allocation study is to allocate the functionalized - classified asset and operating costs to service classifications (i.e. rate classes).

A summary of the methods used to allocate functionalized - classified costs has been provided below.

Purchase & Production

a) Sales Service Commodity

Costs related to the supply of gas are allocated to Union's sales service customers on a volumetric basis consistent with how these costs are incurred.

b) Other Supply Commodity

Costs related to the delivery of commodity to customers are allocated to all delivery customers and contract carriage customers receiving transportation and storage services (T-service) based on annual volume delivered. Costs of this nature include delivery related UFG, administrative and engineering costs. Gas supply and direct purchase administration costs are directly assigned to rate classes.

c) Demand

Firm transportation demand costs are allocated to the North rate classes using a blended allocator developed using a two-step approach. The firm transportation demand base load costs are allocated to rate classes using average day demand. The remaining firm transportation demand costs are allocated to rate classes using excess peak over annual average demand (i.e., the difference between what a rate class takes on an average day and what it requires on its peak day).

Storage Dehydrator

a) Demand

Dehydration demand costs are allocated to rate classes in proportion to the design day demand of the dehydrator. This includes the demand of Enbridge Gas Distribution Inc. through its Tecumseh storage interconnection.

b) Commodity

Dehydration commodity costs are allocated between in-franchise and ex-franchise customers in proportion to the volume forecast to be dehydrated. In-franchise costs are allocated to rate classes on the basis of delivery volume.

Storage Excluding Dehydrator

a) Deliverability

Deliverability costs are compression and related costs incurred to provide delivery from storage on design day to meet customers' firm requirements.

Demand from storage on design day is the excess of customers' design day demand over design day deliveries to Union's system. Ex-franchise (M12 and C1) and T1 customers contract for specific deliverability service levels. The class excess divided by the sum of the excesses is the ratio that is used to allocate these costs.

Design day deliveries are estimated for each firm sales and bundled-T rate class based upon the ratio of the average day for the class divided by the total average day of firm classes.

b) Commodity

Storage commodity costs are allocated to ex-franchise and in-franchise customers in proportion to the volume injected and withdrawn from storage. In-franchise costs are allocated to rate classes on the basis of delivery volume.

c) Space

These are costs attributable to the storage capacity required for the movement of the deficiency of customers' summer use from average over to the winter season.

Space costs are allocated to contract carriage (T1), ex-franchise (M12 and C1 Long Term) and the North customers based on the relationship of contracted space to Union's total storage system working capacity.

For the South, the excess of the winter period use (January - March and November - December) compared to average annual use for the same 151 day period is calculated for each in-franchise sales and Bundled -T rate class (firm and interruptible). This is referred to as the "Aggregate Excess". Costs are allocated to customers in the North using excess peak over annual average demand (i.e., the difference between what a rate class takes on an average day and what it requires on its peak day).

d) System Integrity Space

Union currently maintains approximately 9.7 PJ (9.1 bcf) of system integrity storage space. This system integrity space allows Union to meet its operational needs. The integrity space represents approximately 6% of Union's total storage working capacity.

System integrity storage space costs are allocated to all in-franchise and ex-franchise customers in the South based on how system integrity space is used. Costs are allocated to rate classes in the North using excess peak over annual average demand (i.e., the difference between what a rate class takes on an average day and what it requires on its peak day).

Transmission - Dawn Station

a) Demand

Dawn station compression costs are allocated based on design day demand. Ex-franchise contractual levels and in-franchise transmission lateral demand is used. Union's in-franchise rate classes receive a credit for their firm deliveries at Parkway. In-franchise costs are allocated to rate classes on the basis of firm Dawn-Trafalgar design day demand.

b) Commodity

The allocation of costs between in-franchise and ex-franchise customers is based on fuel usage. In-franchise costs are allocated to rate classes on the basis of delivery volumes east of Dawn.

c) Customer

Dawn station customer costs relate to Tecumseh Metering. These costs are directly assigned to the M12 rate class.

Transmission - Dawn Trafalgar Easterly

a) Demand

Dawn-Trafalgar transmission demand costs are allocated between in-franchise and ex-franchise (M12) customers on the basis of "commodity-kilometres". For ex-franchise (M12) customers, contractual levels are used. For in-franchise customers, transmission lateral demand is used. The demand (at each of Union's transmission laterals, Kirkwall and Parkway) is weighted by the distance from Dawn. The only exception to this is for firm east end deliveries made by TCPL on behalf of Union's in-franchise customers. The distance this load travels is calculated from Parkway. In-franchise costs are allocated to rate classes in proportion to the firm design day demand on the Dawn-Trafalgar laterals. Costs are allocated to customers in the North using excess peak over annual average demand (i.e., the difference between what a rate class takes on an average day and what it requires on its peak day).

b) Customer

Dawn-Trafalgar Easterly in-franchise costs are allocated to rate classes on the basis of firm Dawn-Trafalgar design day demand.

c) Commodity

The allocation of costs between in-franchise and ex-franchise customers is based on fuel usage. In-franchise costs are allocated to rate classes on the basis of delivery volumes east of Dawn.

Transmission – Dawn-Trafalgar Westerly

a) Commodity

The allocation of costs between in-franchise and ex-franchise customers is based on fuel usage. In-franchise costs are allocated on the basis of delivery volume.

Other Transmission

a) Demand

In-franchise system design day demand is used to allocate other transmission system costs to firm service customer classes. Costs related to local production metering stations are directly assigned to the M13 and M16 rate classes.

Ojibway / St. Clair Transmission

a) Demand

Ojibway / St. Clair demand costs are allocated to ex-franchise customers based on the relationship between ex-franchise firm demand and St. Clair import capacity, Ojibway export capacity, and Ojibway local market demand. In-franchise costs are allocated to rate classes in proportion to firm in-franchise demand.

b) Commodity

Fuel costs for the M16 and C1 firm customers are directly assigned to those rate classes. The remaining commodity costs are allocated to in-franchise customers based on delivery volumes west of Dawn.

Distribution

a) Demand

The allocation of distribution demand costs to customers in the South is based on the design day demand of firm and interruptible customers served by distribution facilities. Distribution demand costs are allocated to rate classes in the North using system peak day demand and system peak & average day demand.

b) Commodity

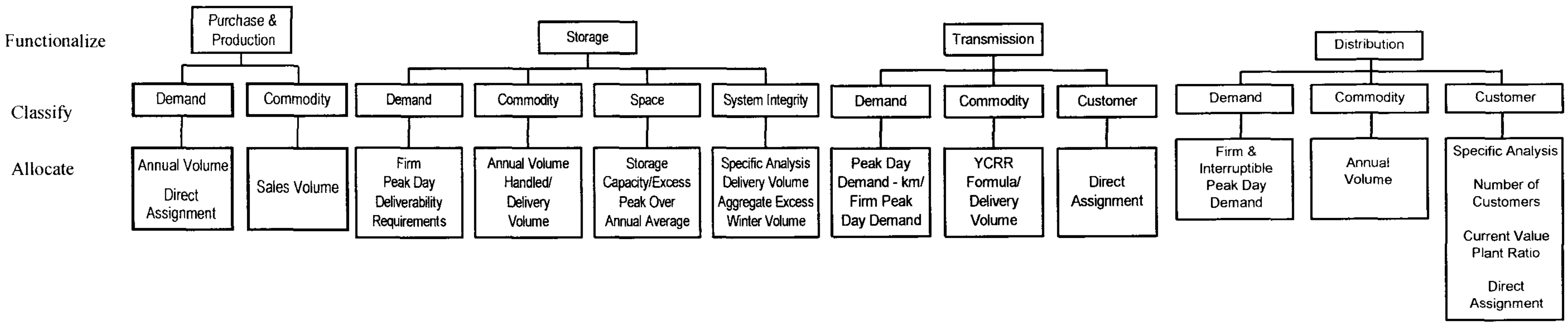
Distribution commodity costs are allocated to in-franchise rate classes in proportion to delivery volume.

c) Customer

Several methodologies are used to allocate the components of customer related costs. These include such measurements as service replacement costs, service calls and average number of customers. Directly assigned costs relate to distribution sales promotion, marketing, and demand side management ("DSM") costs.

A summary of the allocation of total costs can be found at Exhibit G3, Tab 2, Schedule 2. A summary of the allocation of costs within each functional - classification has been provided at Exhibit G3, Tab 5, Schedule 1. Allocation detail for specific functional - classifications where more than one allocation factor is used can be found at Exhibit G3, Tab 5, Schedules 2 through 23. An allocation factor table has been provided at Exhibit G3, Tab 5, Schedule 24. Exhibit G3, Tab 1, Schedule 1, Appendix C provides a description of the allocation factors.

Union Gas Limited
Cost Allocation Study



APPENDIX A

UNION GAS
FUNCTIONALIZATION FACTOR DESCRIPTIONS

Direct Assignments

Factor	Description
COMPRECLAD	Directly assigns the accumulated depreciation on reclassified Underground Storage compressor equipment at Dawn Station that relates to the Dawn-Trafalgar Easterly transmission system.
COMPRECLASS	Directly assigns the plant costs of reclassified Underground Storage compressor equipment at Dawn Station that relates to the Dawn-Trafalgar Easterly transmission system.
DEFTAXDIRECT	Directly assigns Accumulated Deferred Tax balances associated with specific assets to specific functions.
DSMFUNCT	Directly assigns DSM-related advertising costs to the Distribution function.
GDARCB/LIB	Directly assigns Customer Billing & Accounting operating expenses associated with the implementation of new provisions of the Gas Distribution Access Rule (GDAR) to the Purchase and Production function. Directly assigns Customer Billing & Accounting operating expenses for Large Industrial Billings to Dawn-Trafalgar Easterly, Other Transmission and Ojibway / St. Clair functions.
GDARCAP	Directly assigns plant costs of General Plant GDAR-related capital to the Purchase and Production function.

Factor	Description
GDARCAPAD	Directly assigns accumulated depreciation on GDAR-related General Plant to the Purchase and Production function.
GS/AOP	Directly assigns General Operating and Engineering costs related to gas purchasing administration costs to Purchase and Production. Directly assigns VP Assets Operation costs in proportion to asset operation O&M.
GSADM/GDAR/DSM	Directly assigns gas purchasing administration costs to the Purchase and Production function. Directly assigns Administrative and General operating expenses associated with the implementation of the GDAR to the Purchase and Production function. Directly assigns DSM-related Administrative and General operating expenses to the Distribution function.
GSBENEFITS	Directly assigns Employee Benefits associated with gas supply to Purchase and Production.
M&RRECLAD	Directly assigns the accumulated depreciation on reclassified Underground Storage measuring and regulating equipment at Dawn Station that relates to the Dawn-Trafalgar Easterly transmission system.
M&RRECLASS	Directly assigns the plant costs of reclassified Underground Storage measuring and regulating at Dawn Station that relates to the Dawn-Trafalgar Easterly transmission system.
MN-COMP	Directly assigns specific Transmission compressor maintenance expenses to the Dawn-Trafalgar Easterly and Ojibway/St. Clair transmission systems.

Factor	**Description**
MN-LINES	Directly assigns specific Transmission line maintenance expenses to the Dawn-Trafalgar Easterly and Ojibway/St. Clair transmission systems.
MN-M&R	Directly assigns specific Transmission measuring and regulating stations maintenance expenses to the Dawn-Trafalgar Easterly and Ojibway/St. Clair transmission systems.
MRKTGS/M9/GDAR/DSM	Directly assigns gas supply administration and GDAR-related Sales Promotion costs related to the Purchase and Production function. Directly assigns Sales Promotion Supervision costs for the M9 and T3 rate classes and DSM related costs to the Distribution function.
OP-COMP	Directly assigns specific Transmission compressor operating expenses to the Dawn-Trafalgar Easterly and Ojibway/St. Clair transmission systems.
OP-LINES	Directly assigns specific Transmission line operating expenses to the Dawn-Trafalgar Easterly and Ojibway / St. Clair transmission systems.
OP-M&R	Directly assigns specific Transmission measuring and regulating stations operating expenses to the Dawn-Trafalgar Easterly and Ojibway/St. Clair transmission systems.
OSC	Directly assigns the St. Clair and Bluewater rental fee to the Ojibway / St. Clair transmission system.
S&IRECLAD	Directly assigns the accumulated depreciation on reclassified Underground Storage structures and improvements at Dawn Station that relates to the Dawn-Trafalgar Easterly transmission system.

Factor	Description
S&IRECLASS	Directly assigns the plant costs of reclassified Underground structures & improvements at Dawn Station that relate to the Dawn-Trafalgar Easterly transmission system.
STORAGEFUEL	Directly assigns Underground Storage compressor fuel operating expenses as specifically budgeted by location.
TRANSCOMPEQ	Directly assigns the plant costs of specific Transmission compressor equipment to the Dawn-Trafalgar Easterly and Ojibway / St. Clair transmission systems in proportion to specifically assigned assets.
TRANSCOMPEQAD	Directly assigns the accumulated depreciation on specific Transmission compressor equipment to the Dawn-Trafalgar Easterly and Ojibway / St. Clair transmission systems in proportion to specifically assigned assets.
TRANSLAND	Directly assigns specific Transmission land costs to the Dawn-Trafalgar Easterly and Ojibway / St. Clair transmission systems in proportion to specifically assigned assets.
TRANSLANDRGT	Directly assigns specific Transmission land rights costs to the Dawn-Trafalgar Easterly and Ojibway / St. Clair transmission systems in proportion to specifically assigned assets.
TRANSLANDRGTAD	Directly assigns the accumulated depreciation on specific Transmission land rights to Dawn-Trafalgar Easterly and Ojibway/St. Clair transmission systems in proportion to specifically assigned assets.

Factor	**Description**
TRANSMAINS	Directly assigns the plant costs of specific Transmission mains to the Dawn-Trafalgar Easterly and Ojibway / St. Clair transmission systems in proportion to specifically assigned assets.
TRANSMAINSAD	Directly assigns the accumulated depreciation on specific Transmission mains to the Dawn-Trafalgar Easterly and Ojibway / St. Clair transmission systems in proportion to specifically assigned assets.
TRANSMISSIONFUEL	Directly assigns Transmission compressor fuel operating expenses in proportion to transmission volumes.
TRANSM&R	Directly assigns the plant costs of specific Transmission measuring and regulating equipment to the Dawn-Trafalgar Easterly and Ojibway / St. Clair transmission systems and to Dawn Station in proportion to specifically assigned assets.
TRANSM&RAD	Directly assigns the accumulated depreciation on specific Transmission measuring and regulating equipment to the Dawn-Trafalgar Easterly and Ojibway / St. Clair transmission systems and to Dawn Station in proportion to specifically assigned assets.
TRANSS&I	Directly assigns the plant costs of specific Transmission structures and improvements to the Dawn-Trafalgar Easterly and Ojibway / St. Clair transmission systems in proportion to specifically assigned assets.
TRANSS&IAD	Directly assigns the accumulated depreciation on specific Transmission structures and improvements to the Dawn-Trafalgar Easterly and Ojibway / St. Clair transmission systems in proportion to specifically assigned assets.

Factor	Description
	Other Assignments
BDEBTFUNCT	Functionalizes bad debts attributable to system supplied customers to Purchase & Production and Distribution functions in proportion to revenues.
COMPRECL-O&M	Functionalizes compression O&M costs based on fuel requirements
COMPRECL-PT	Functionalizes compression rate base related costs based on horsepower requirements
DAWNEAST	Functionalizes costs to the Dawn-Trafalgar Easterly transmission system.
DEFERTAXBASE	Base over which to functionalize non-directly assigned deferred taxes.
DIST	Functionalizes costs directly to the Distribution function.
DTDRAWDOWN	Functionalizes costs in proportion to accumulated deferred taxes.
GENOPACT	Functionalizes General Operating and Engineering expenses in proportion to an analysis of activities.
INDIRECT_I	Functionalizes costs to the functions in proportion to components of rate base.
INDIRECT_II	Functionalizes costs to the functions in proportion to components of O&M.
INDIRECT_I&II	Equal weighting of INDIRECT_I and INDIRECT_II factors.
LABOUR	Functionalizes costs to the functions in proportion to labour expenses.

Factor	**Description**
LINEPACK	Functionalizes the costs of linepack gas to the Transmission and Distribution functions in proportion to linepack volumes.
M&RRECL-O&M	Functionalizes measuring and regulating O&M costs based on an analysis of use.
M&RRECL-PT	Functionalizes measuring and regulating rate base related costs based on an analysis of use.
O&MEXP	Functionalizes costs to the functions in proportion to components of O&M.
OTHERTRANS	Functionalizes costs directly to the Other Transmission function.
PROD	Functionalizes costs directly to the Purchase and Production function.
PROTAX	Functionalizes costs in proportion to property tax expense detail.
RATEBASE	Functionalizes costs in proportion to total rate base.
SCADAO&M	Directly assigns SCADA operating expenses based on number of RTUs per function area.
STORDEHY	Functionalizes storage costs to the Storage Dehydrator function.
STORDEHYX	Functionalizes storage costs to the Storage Excluding Dehydrator function.
UFGFUNCT	Functionalizes the costs of unaccounted-for-gas to storage and transmission functions in proportion to volumes.

APPENDIX B

UNION GAS
CLASSIFICATION FACTOR DESCRIPTIONS

Direct Assignments

Factor	Description
A&GDPADMIN/GDAR	Directly assigns Administrative and General GDAR-related expenses to the other supply commodity classification. Directly assigns Administrative and General expenses associated with gas purchasing to the system supply commodity classification.
BENEFITDP	Directly assigns Employee Benefits costs related to Gas Purchasing to system supply and other supply commodity classifications.
CUSTREG	Directly assigns regulator costs to the Distribution customer classification.
DSMADM	Directly assigns DSM Administrative and General expenses to the Distribution Demand classification.
DSMCLASS	Directly assigns DSM advertising costs to the Distribution Demand classification.
DTDIRECTDAWN	Directly assigns Accumulated Deferred Taxes related to Tecumseh metering to Dawn Station demand and customer classifications.
DTDIRECTDAWNEAST	Directly assigns Accumulated Deferred Taxes related to Oil Springs East to Dawn-Trafalgar Easterly Demand and Dawn OSE Metering classifications.
DTDIRECTOTRTRANS	Directly assigns Accumulated Deferred Taxes related to transmission M&R equipment to Other Transmission demand classification.

Factor	**Description**
DTDIRECTSTCLAIR	Directly assigns Accumulated Deferred Taxes to Ojibway / St. Clair demand classification.
DTDIRECTSTORDEHY	Directly assigns Accumulated Deferred Taxes related to the Storage Dehydrator demand classification.
DTDIRECTSTORX	Directly assigns Accumulated Deferred Taxes related to base pressure gas to the Storage Excluding Dehydrator deliverability, space and system integrity classifications.
GDARCAPADCLASS	Directly assigns accumulated depreciation costs associated with the implementation of new provisions of the Gas Distribution Access Rule ("GDAR") to the Purchase and Production other supply commodity classification.
GDARCAPCLASS	Directly assigns capital costs associated with the implementation of new provisions of the GDAR to the Purchase and Production other supply commodity classification.
GDARCBCLASS	Directly assigns Customer Billing & Accounting operating expenses associated with the implementation of GDAR to the Purchase and Production other supply commodity classification.
GO&EGSADMIN	Directly assigns gas purchasing administration costs to Purchase/Production system supply commodity and Purchase/Production other supply commodity.
M9/T3CLASS/DSM	Directly assigns O&M expenses related to the M9 and T3 rate classes to the Distribution Customer classification. Directly assigns Sales Promotion Supervision related DSM costs to the Distribution Demand classification.

Factor	Description
MRKTGS/GDAR	Directly assigns distribution Sales Promotion costs related to gas purchasing and GDAR to the Purchase/Production other supply commodity classification.
OSEM&R	Directly assigns the plant costs of measuring and regulating equipment related to Oil Springs East to Dawn OSE Metering classification.
OSEM&R_AD	Directly assigns the accumulated depreciation on measuring and regulating equipment related to Oil Springs East to Dawn OSE Metering classification.
OSES&I	Directly assigns plant costs of structures and improvements related to Oil Springs East to Dawn OSE Metering classification.
OSES&I_AD	Directly assigns the accumulated depreciation on structures and improvements related to Oil Springs East to Dawn OSE Metering classification.
STSCLASS	Directly assigns third party storage services to Storage Excluding Dehydrator deliverability and commodity classifications.

Factor	**Description**
	Other Assignments
ADREGULATORS	Classifies the accumulated depreciation on regulators to Distribution demand and customer classifications in proportion to the classification of regulator plant.
BDEBTCLASS	Classifies bad debt attributable to system supply customers to Purchase & Production System Supply Commodity and bad debt attributable to direct purchase customers to Purchase & Production Other Supply Commodity.
DAWNBASE	Classifies costs in proportion to Dawn Station rate base.
DAWNEASTBASE	Classifies costs in proportion to Dawn-Trafalgar Easterly rate base.
DAWNEASTGO&E	Classifies all Dawn-Trafalgar Easterly General Operating and Engineering expenses to demand.
DAWNEASTLABOR	Classifies all Dawn-Trafalgar Easterly O&M expenses based on labour expenses.
DAWNEASTO&M	Classifies costs in proportion to components of Dawn-Trafalgar Easterly total O&M .
DAWNEASTPROTAX	Classifies Dawn-Trafalgar Easterly property taxes based on plant and property tax detail.
DAWNLABOR	Classifies Dawn Station O&M expenses based on labour expenses.
DAWNO&M	Classifies costs in proportion to components of Dawn Station O&M.

Factor	**Description**
DAWNPROTAX	Classifies Dawn Station property taxes based on plant and property tax detail.
DIRDTBSED-TE	Identifies rate base associated with directly assigned accumulated deferred tax to exclude in factor DTBASEDAWNEAST.
DIRDTBSEDWNSTN	Identifies rate base associated with directly assigned accumulated deferred tax to exclude in factor DTBASEDAWN.
DIRDTBSEOTTR	Identifies rate base associated with directly assigned accumulated deferred tax to exclude in factor DTBASEOTRTRANS.
DIRDTBSESTCL	Identifies rate base associated with directly assigned accumulated deferred tax to exclude in factor DTBASESTCLAIR.
DIRDTBSESTORDEHY	Identifies rate base associated with directly assigned accumulated deferred tax to exclude in factor DTBASESTORDEHY.
DIRDTBSESTORX	Identifies rate base associated with directly assigned accumulated deferred tax to exclude in factor DTBASESTORX.
DISTBASE	Classifies costs in proportion to Distribution rate base.
DISTGO&E	Classifies Distribution General Operating and Engineering expenses based on activity analysis completed by budget center managers.
DISTLABOR	Classifies Distribution O&M expenses based on labour expenses.

Factor	**Description**
DISTO&M	Classifies costs in proportion to components of Distribution O&M.
DISTPROTAX	Classifies Distribution property taxes based on plant and property tax detail.
DTBASEDAWN	Classifies any non-directly assigned Dawn Station deferred tax balance in proportion to plant.
DTBASEDAWNEAST	Classifies any non-directly assigned Dawn-Trafalgar Easterly transmission deferred tax balance in proportion to plant.
DTBASEDIST	Classifies any non-directly assigned Distribution deferred tax balance in proportion to plant.
DTBASEOTRTRANS	Classifies any non-directly assigned Other Transmission deferred tax balance in proportion to plant.
DTBASEPROD	Classifies any non-directly assigned Purchase and Production accumulated deferred tax balance in proportion to plant.
DTBASESTCLAIR	Classifies any non-directly assigned Ojibway / St. Clair deferred tax balance in proportion to plant.
DTBASESTORDEHY	Classifies any non-directly assigned Storage Dehydrator deferred tax balance in proportion to plant.
DTBASESTORX	Classifies any non-directly assigned Storage Excluding Dehydrator deferred tax balance in proportion to plant.
DTDRWDN-DAWN	Classifies the Dawn Station accumulated deferred tax drawdown based on the Dawn Station accumulated deferred tax balance.

Factor	Description
DTDRWDN-DAWNEAST	Classifies the Dawn Trafalgar Easterly accumulated deferred tax drawdown based on the Dawn Trafalgar Easterly accumulated deferred tax balance.
DTDRWDN-DEHYDR	Classifies the Storage Dehydrator accumulated deferred tax drawdown based on the Storage Dehydrator accumulated deferred tax balance.
DTDRWDN-DIST	Classifies the Distribution accumulated deferred tax drawdown based on the Distribution accumulated deferred tax balance.
DTDRWDN-OTHRTRAN	Classifies the Other Transmission accumulated deferred tax drawdown based on Other Transmission accumulated deferred tax balance.
DTDRWDN-PROD	Classifies the Purchase and Production accumulated deferred tax drawdown based on the Purchase and Production accumulated deferred tax balance.
DTDRWDN-STCLAIR	Classifies the Ojibway/St. Clair accumulated deferred tax drawdown based on the Ojibway/St. Clair accumulated deferred tax balance.
DTDRWDN-STORX	Classifies the Storage Excluding Dehydrator accumulated deferred tax drawdown based on Storage Excluding Dehydrator accumulated deferred tax balance.
FIRST	Classifies account dollars to the first column of classification identified for a particular function. .
FIRST&THIRD	Classified account dollars equally between the first and third columns.

Factor	Description
FIRST&THIRD&FOURTH	Classifies account dollars to the first, third and fourth columns of classification identified for a particular function.
FOURTH	Classifies account dollars to the fourth column of classification identified for a particular function. .
GASINSTOR	Classifies gas in storage working capital in proportion to space and system integrity requirements.
INDIR_I_DAWN	Classifies costs in proportion to components of Dawn Station rate base.
INDIR_II_DAWN	Classifies costs in proportion to components of Dawn Station O&M.
INDIR_I&II_DAWN	Classifies costs based on an equal weighting between INDIR_I_DAWN and INDIR_II_DAWN factors.
INDIR_I_DAWNEAST	Classifies costs in proportion to components of Dawn-Trafalgar Easterly rate base.
INDIR_II_DAWNEAST	Classified costs in proportion to components of Dawn-Trafalgar Easterly O&M.
INDIR_I_DIST	Classifies costs in proportion to components of Distribution rate base.
INDIR_II_DIST	Classifies costs in proportion to components of Distribution O&M.
INDIR_I&II_DIST	Classifies costs based on an equal weighting between INDIR_I_DIST and INDIR_II_DIST factors.
INDIR_I_OTRTRANS	Classifies costs in proportion to components of Other Transmission rate base.

Factor	Description
INDIR_II_OTRTRANS	Classifies costs in proportion to components of Other Transmission O&M.
INDIR_I&II_OTRTRANS	Classifies costs based on an equal weighting between INDIR_I_OTRTRANS and INDIR_II_OTRTRANS factors.
INDIR_I_STCLAIR	Classifies costs in proportion to components of Ojibway / St. Clair rate base.
INDIR_II_STCLAIR	Classifies costs in proportion to components of Ojibway / St. Clair O&M.
INDIR_I&II_STCLAIR	Classifies costs based on an equal weighting between INDIR_I_STCLAIR and INDIR_II_STCLAIR factors.
INDIR_I_STORDEHY	Classifies costs in proportion to components of Storage Dehydrator rate base.
INDIR_II_STORDEHY	Classifies costs in proportion to components of Storage Dehydrator O&M.
INDIR_I&II_STORDEHY	Classifies costs based on an equal weighting between INDIR_I_STORDEHY and INDIR_II_STORDEHY factors.
INDIR_I_STORX	Classifies costs in proportion to components of Storage Excluding Dehydrator rate base.
INDIR_II_STORX	Classifies costs in proportion to components of Storage Excluding Dehydrator O&M.
INDIR_I&II_STORX	Classifies costs based on an equal weighting between INDIR_I_STORX and INDIR_II_STORX factors.

Factor	**Description**
N_DIST	Classifies costs in proportion to total Distribution plant in the Northern and Eastern Operations area.
N_DISTMAINS&SER	Classifies costs in proportion to Distribution Mains & Services plant in the Northern and Eastern Operations area.
N_DISTMM&RCOM	Classifies costs in proportion to Northern and Eastern Operations area Distribution Mains, Measuring & Regulating Equipment and Compressor plant.
N_MINPLANT	Classifies account dollars as demand or customer related based on minimum plant method for the Northern and Eastern Operations area mains.
OTHERTRANSBASE	Classifies costs in proportion to Other Transmission rate base.
OTHERTRANSLABOR	Classifies Other Transmission O&M expenses based on labour expenses.
OTHERTRANSO&M	Classifies costs in proportion to components of Other Transmission O&M.
OTHERTRANSPROTAX	Classifies Other Transmission property taxes based on plant and property tax detail.
PRODBASE	Classifies costs in proportion to Purchase and Production rate base.
PRODCOG	Classifies Purchase and Production gas purchase working capital expenses based on cost of gas.
PRODLABOR	Classifies Purchase and Production employee benefits based on labour expenses.
PRODO&M	Classifies costs in proportion to components of Purchase and Production Total O&M.

Factor	**Description**
PRODPROTAX	Classifies Purchase and Production property taxes based on plant and property tax detail.
S_DISTMAINS&SER	Classifies costs in proportion to Distribution Mains & Services plant in the Southern Operations area.
S_DISTMM&RCOM	Classifies costs in proportion to Southern Operations area Distribution Mains, Measuring & Regulating Equipment and Compressor plant.
S_MINPLANT	Classifies account dollars as demand or customer related based on minimum plant method for the Southern Operations area mains.
SALESSUPER	Classifies Distribution Sales Promotion Supervision costs in proportion to the classification of the other distribution sales promotion costs.
SECOND	Classifies account dollars to the second column of Classification identified for a particular function.
SECOND&THIRD	Classifies account dollars equally between the second and third columns of classification identified for a particular function.
STCLAIRBASE	Classifies costs in proportion to Ojibway / St. Clair rate base.
STCLAIRLABOR	Classifies Ojibway / St. Clair employee benefits based on labour expenses.
STCLAIRO&M	Classifies costs in proportion to components of Ojibway / St. Clair O&M.
STCLAIRPROTAX	Classifies Ojibway / St. Clair property taxes based on plant and property tax detail.

Factor	Description
STORDEHYBASE	Classifies costs in proportion to Storage Dehydrator rate base.
STORDEHYXBASE	Classifies costs in proportion to Storage Excluding Dehydrator rate base.
STORDEHYXGO&E	Classifies Storage Excluding Dehydrator General Operating and Engineering expenses based on operating expenses.
STORDEHYLABOR	Classifies Storage Dehydrator employee benefits based on labour expenses.
STORDEHYXLABOR	Classifies Storage Excluding Dehydrator employee benefits based on labour expenses.
STORDEHYO&M	Classifies costs in proportion to components of Storage Dehydrator O&M
STORDEHYXO&M	Classifies costs in proportion to components of Storage Excluding Dehydrator O&M.
STORDEHYPROTAX	Classifies Storage Dehydrator property taxes based on plant and property tax detail.
STORDEHYXPROTAX	Classifies Storage Excluding Dehydrator property taxes based on plant and property tax detail.
THIRD	Classifies costs to the third column of classification identified for a particular function.
THIRD&FOURTH	Classifies costs between the third and fourth columns of classification identified for a particular function.

APPENDIX C

UNION GAS
ALLOCATION FACTOR DESCRIPTIONS

Direct Assignment

Factor	Description
DAWNSTORFUEL	Directly allocates Dawn Storage compressor fuel costs to ex-franchise and Northern and Eastern Operations area rate classes in proportion to volumes.
DSMADMIN	Directly assigns DSM general administrative expenses in proportion to budgeted costs by rate class.
DSMSUPER	Directly assigns DSM sales promotion supervision related costs in proportion to budgeted costs by rate class.
GDARCAPALLO	Directly allocates capital costs associated with the implementation of the Gas Distribution Access Rule ("GDAR") in proportion to the average number of customers incurring these costs.
GDARCAPADALLO	Directly allocates accumulated depreciation on capital costs associated with the implementation of GDAR in proportion to the average number of customers incurring these costs.
GDARCBALLO	Directly allocates customer billing and accounting operating expenses associated with the implementation of GDAR in proportion to the average number of Direct Purchase customers incurring these costs.
GSADMINDIRECT/GDAR	Directly allocates Administrative GDAR-related expenses and Administrative expenses associated with gas purchasing in proportion to the average number of Direct Purchase customers incurring these costs.

Factor	Description
GSBENEFITSDIRECT	Directly allocates employee benefit costs associated with gas purchasing administration in proportion to the average number of Direct Purchase customers incurring these costs.
GSGO&EDIRECT	Directly allocates gas purchasing general operating and engineering costs in proportion to the average number of Direct Purchase customers incurring these costs.
GSMRKTINGDIRECT/GDAR	Directly allocates GDAR-related and gas supply marketing costs to customer rate classes in proportion to the average number of Direct Purchase customers incurring these costs.
HAGARFUEL	Directly allocates Hagar and Iroquois Falls compressor fuel costs to rate classes in the Northern and Eastern Operations area in proportion to fuel usage.
HOUSEREGRES	Directly allocates residential regulator costs to residential customer classes in the Northern and Eastern Operations area.
LIB	Directly allocates Distribution customer billing and accounting expenses for Large Industrial Billing accounts based upon analysis provided by budget center manager.
M9/T3ALLO	Directly allocates expenses associated with the M9 and T3 rate classes based on an activity analysis.
M13&M16LAND	Directly allocates Other Transmission land costs associated with the M13 and M16 rate class.
M13&M16MAINS	Directly allocates the plant costs of Other Transmission mains associated with the M13 and M16 rate class.

Factor	Description
M13&M16MAINSAD	Directly allocates the accumulated depreciation on Other Transmission mains associated with the M13 and M16 rate class.
M13&M16M&R	Directly allocates the plant costs of Other Transmission M&R equipment associated with the M13 and M16 rate class.
M13&M16M&RAD	Directly allocates the accumulated depreciation on Other Transmission M&R equipment associated with the M13 and M16 rate class.
M13&M16OPERATING	Directly allocates Other Transmission M&R station operating expenses associated with the M13 rate and M16 class.
M16/C1FUEL	Directly allocates compressor fuel related costs to M16 and C1 rate class.
N_LINEPACK	Directly allocates linepack costs to Northern and Eastern Operations area rate classes in proportion to volumes.
N_SERREV	Directly allocates revenue from service work to rate classes in the Northern and Eastern Operations area in proportion to average number of customers.
N_SYSINTEG	Directly allocates system integrity gas in storage costs to rate classes in the Northern and Eastern Operations area in proportion to allocated system integrity inventory.
TRANSFUELEAST	Directly allocates Dawn Trafalgar Easterly transmission compressor fuel costs in proportion to fuel usage.

Factor	Description
TRANSFUELWEST	Directly allocates Dawn-Trafalgar Westerly transmission compressor fuel costs in proportion to fuel usage.
UFGALLO	Directly allocates unaccounted-for-gas costs to the ex-franchise and Northern and Eastern Operations area rate classes.

Other Assignments

ABCCUST	Allocates costs in proportion to the average number of ABC-T customers (Rates M2, R01, R10)
AVECUST	Allocates costs in proportion to average number of in-franchise customers.
APPLIANCERENT	Allocates costs in proportion to Appliance Rentals.
BDEBTDIST	Allocates delivery-related bad debt expenses in proportion to average number of in-franchise customers.
BDEBTOTHSUP	Allocates bad debt expenses attributed to Direct Purchase customer rate classes in proportion to volumes.
C1	Allocated costs to C1 Interruptible Transportation Service rate class.
C1FIRM	Allocates costs to C1 Firm rate class.
DAWNCOMP	Allocates costs in proportion to demand related to Dawn compression using ex-franchise contractual levels and in-franchise peak day demand.

Factor	Description
DAWNEASTBASE-2	Allocates costs in proportion to OSE Metering rate base.
DAWNEASTPROTAX-2	Allocates OSE Metering property tax costs in proportion to plant and property tax detail
DCUSTSALEPRO	Allocates costs of Distribution Customer Sales-Marketing sales promotion in proportion to sales activity and average number of customers.
DDPKINT	Allocates costs in proportion to Design Day Peak demand including T-Service and Bundled-T.
DEHYCOMMODITY	Allocates costs in proportion to total system dehydration commodity volumes with in-franchise costs allocated on delivery volume.
DEHYDEMAND	Allocates costs in proportion to Dehydrator demand (storage deliverability (NETFROMSTOR) plus Tecumseh demand (TECUMSEHDEMAND)).
DELIVERYVOL	Allocates costs in proportion to volumes delivered.
DISTBASE-1	Allocates costs in proportion to Distribution Demand rate base.
DISTBASE-3	Allocates costs in proportion to Distribution Customer rate base.
DISTCUSTACCT	Allocates Distribution Customer Accounting supervision costs in proportion to labour costs within other Distribution Customer Accounting costs.
DISTCUSTPT	Allocates Distribution Customer General Operating and Engineering costs in proportion to distribution plant.

Factor	Description
DISTDEMAND	Allocates costs in proportion to the peak day demand of firm and interruptible customers served by the distribution system excluding customers served directly off transmission lines.
DISTDEMPT	Allocates costs in proportion to Distribution demand-related plant.
DISTLABOR-1	Allocates employee benefits in proportion to the Distribution Demand labour expense.
DISTLABOR-3	Allocates employee benefits in proportion to the Distribution Customer labour expense.
DISTO&MEXP-1	Allocates costs in proportion to Distribution Demand O&M.
DISTO&MEXP-3	Allocates costs in proportion to Distribution Customer O&M.
DISTPROTAX-1	Allocates Distribution Demand property tax costs in proportion to plant and property tax detail.
DISTPROTAX-3	Allocates Distribution Customer property tax costs in proportion to plant and property tax detail.
DPADMIN	Allocates costs to rate classes based on the test year's average number of ABC-T and bundled-T customers.
DSM	Allocates DSM advertising-related costs in proportion to budgeted costs by rate class.
DTTRANS	Allocates Dawn-Trafalgar Easterly Demand costs to in-franchise customers based on firm design day demand.

Factor	Description
FSFUELDIR	Allocates gas supply Firm Service Transportation Fuel costs in proportion to winter sales volumes for the interruptible rate classes and the remaining fuel costs are allocated based on firm sales volumes excluding T-service.
FSTRANSDIR	Allocates gas supply Firm Service Transportation Commodity costs in proportion to total interruptible sales volumes and the remaining costs are allocated based on firm sales volumes excluding T-service.
INDIR_I_DIST	Allocates costs in proportion to components of Distribution Customer rate base.
INDIR_II_DIST	Allocates costs in proportion to components of Distribution Customer O&M.
INDIR_I&II_DIST	Allocates costs based on an equal weighting of the INDIR_I_DIST and INDIR_II_DIST factors.
INDIR_I_OSE	Allocates costs in proportion to components of Oil Springs East Metering rate base.
INDIR_II_OSE	Allocates costs in proportion to components of Oil Springs East Metering O&M.
INDIR_I&II_OSE	Allocates costs based on an equal weighting of the INDIR_I_OSE and INDIR_II_OSE factors.
INDIR_I_STOR	Allocates costs in proportion to components of Storage Excluding Dehydrator System Integrity rate base.
INDIR_II_STOR	Allocates costs in proportion to components of Storage Excluding Dehydrator System Integrity O&M.
INDIR_I&II_STOR	Allocates costs based on an equal weighting of the INDIR_I_STOR and INDIR_II_STOR.

Factor	**Description**
INFRANDELVOL	Allocates costs in proportion to delivery volumes for in-franchise customers.
M12	Allocates costs to the M12 rate class.
M13	Allocates costs to the M13 rate class.
M16	Allocates costs to the M16 rate class.
MAINS-PD	Allocates Sole Use Mains Plant costs in proportion to demand of sole use customers.
M&R-PD	Allocates Sole Use M&R Plant costs in proportion to demand of sole use customers.
METERPL	Allocates costs in proportion to Meter Plant costs.
N_ACEXLGIND	Allocates costs in proportion to average number of customers in the Northern and Eastern Operations area excluding Large Industrials.
N_ACEXRES	Allocates costs in proportion to average number of customers in Northern and Eastern Operations area excluding Residential.
N_CUSTMM&RCOM	Allocates costs in proportion to Distribution Customer Mains, M&R, and Compressor plant for the Northern and Eastern operations area.
N_DEMMMRCOM	Allocates costs in proportion to Distribution Demand Mains, M&R and Compressor plant for the Northern and Eastern operations area.
N_DEMMAINS&SER	Allocates costs in proportion to Distribution Demand Mains & Services plant.

Factor	Description
N_METERCALLTIME	Allocates costs to the Northern and Eastern operations area in proportion to time required to replace or repair meters.
N_SERVICECALLTIME	Allocates costs to the Northern and Eastern operations area in proportion to service call time.
N_SUPPLYVOL	Allocates costs in proportion to Northern and Eastern Operations area system supply volumes.
NETFROMSTOR	Allocates costs in proportion to design day demand less design day deliveries.
NWINSALES-EX16&25	Allocates costs in proportion to Normalized Winter Sales (Dec.-Feb.) excluding Rate 25.
O/SC_DEMAND	Allocates costs in proportion to Ojibway / St. Clair peak day demand.
OTHERTRANS	Allocates costs in proportion to the in-franchise system design day demand on Other Transmission lines (firm customers).
OTHERTRANSBASE-1	Allocates costs in proportion to Other Transmission Demand rate base.
OTHERTRANSPROTAX-1	Allocates Other Transmission property tax costs in proportion to plant and property tax detail.
OTHERTRANSPT-1	Allocates costs in proportion to Other Transmission demand total gross plant in service.
PK&AVG-XLGIND	Allocates costs in proportion to system peak and average day demand excluding Large Industrial.
PK&AVG-XSOLE	Allocates costs in proportion to system peak and average day demand excluding customers who are entirely Sole Use.

Factor	Description
PRODBASE-1	Allocates costs in proportion to Purchase and Production System rate base.
PRODBASE-2	Allocates costs in proportion to Purchase and Production Other Rate Base.
PRODBASE-3	Allocates costs in proportion to Purchase and Production Demand Rate Base.
PRODCOG-2	Allocates costs in proportion to Purchase and Production Other Cost of Gas.
PRODCOG-3	Allocates costs in proportion to Purchase and Production Demand Cost of Gas.
PRODLABOR-1	Allocates employee benefit costs based on components of Purchase and Production System O&M and labour expense percentages.
PRODLABOR-2	Allocates employee benefit costs based on components of Purchase and Production Other O&M and labour expense percentages.
PRODO&MEXP-1	Allocates costs in proportion to Purchase and Production System O&M.
PRODO&MEXP-2	Allocates costs in proportion to Purchase and Production Other O&M.
PRODPROTAX-2	Allocates Purchase and Production Other property tax costs in proportion to plant and property tax detail.
REPAIRCOSTS	Allocates costs of repairs at customers' premises as budgeted.
S_AVECUST	Allocates costs in proportion to average number of in-franchise customers in the Southern Operations area.

Factor	Description
S_CUSTMM&RCOM	Allocates costs in proportion to Distribution Customer Mains, M&R, and Compressor plant for the Southern operations area.
S_DISTBASE-3	Allocates costs in proportion to Distribution Customer rate base for the Southern operations area.
S_E_INFRFUELVOL	Allocates fuel costs to Southern operations area in proportion to in-franchise delivery volumes for customers served east of Dawn.
S_W_INFRFUELVOL	Allocates fuel costs to Southern operations area in proportion to in-franchise delivery volumes for customers served west of Dawn.
S_INFRANDELVOL	Allocates costs in proportion to delivery volumes for in-franchise customers in the Southern Operations area.
S_INFRFUELVOL	Allocates fuel costs in proportion to Southern Operations area in-franchise delivery volumes.
S_INFRXT	Allocates costs in proportion to delivery volumes for in-franchise customers in the Southern Operations area excluding T-service.
S_METERCALLTIME	Allocates costs to the Southern operations area in proportion to time required to replace or repair meters.
S_SERVICECALLTIME	Allocates costs to the Southern operations area in proportion to service call time.
S_SUPPLYVOL	Allocates costs in proportion to Southern Operations area system supply volumes.

Factor	Description
SALESREPS	Allocates sales representatives expenses in proportion to average number of customers.
SERVICES-DIR	Allocates costs in proportion to cumulative number of services using cascade approach.
SERVREPLCOSTS	Allocates costs in proportion to Distribution service replacement costs.
STATIONREPLCOSTS	Allocates costs in proportion to Distribution station replacement costs.
STORAGECOM	Allocates costs to ex-franchise and in-franchise customers in proportion to the volume injected and withdrawn from storage with the in-franchise allocation based on delivery volumes.
STORAGEXCESS	Allocates contracted storage space with the in-franchise portion allocated on the excess of winter volumes (November-March) compared to average annual use for the same 151-day period
STORDEHYXBASE-1	Allocates costs in proportion to Storage Excluding Dehydrator Deliverability rate base.
STORDEHYXBASE-3	Allocates costs in proportion to Storage Excluding Dehydrator Space rate base.
STORDEHYXBASE-4	Allocates costs in proportion to Storage Excluding Dehydrator System Integrity rate base.
STORDEHYXLABOR-4	Allocates costs in proportion to Storage Excluding Dehydrator System Integrity labour expenses.
STORDEHYXO&MEXP-4	Allocates costs in proportion to Storage Excluding Dehydrator System Integrity O&M.

Factor	Description
STORDEHYXPROTAX-1	Allocates Storage Excluding Dehydrator Delivery property tax dollars using Storage Excluding Dehydrator plant and property tax detail.
STORDEHYXPROTAX-3	Allocates Storage Excluding Dehydrator Space property tax dollars using Storage Excluding Dehydrator plant and property tax detail.
STORDEHYXPROTAX-4	Allocates Storage Excluding Dehydrator System Integrity property tax dollars using Storage Excluding Dehydrator plant and property tax detail.
STORDELIVERYWC	Allocates costs in proportion to the storage deliverability allocator (NETFROMSTOR) for in-franchise customers only.
STORSPACEWC	Allocates storage space working capital based on the in-franchise storage space allocator STORAGEXCESS excluding T-service.
SUPPLYVOL	Allocates costs in proportion to in-franchise system supply volumes.
SYSINTEGRITY	Allocates System Integrity costs to rate classes in proportion to allocated system integrity inventory.
TECUMSEHDEMAND	Allocates costs in proportion to Tecumseh metering demand.
TRANSALLO	Allocates gas supply Firm Service Transportation Demand costs to Northern and Eastern Operations area rate classes in proportion to winter sales volume for the interruptible rate classes, base load costs are allocated using average day demand and the remaining costs use excess peak over average annual demands.

Factor	Description
XSPK&AVG	Allocates costs to Northern and Eastern Operations area rate classes in proportion to the excess of design day peak demand and annual average daily demand.

UNION GAS LIMITED

Answer to Interrogatory from
Industrial Gas Users Association ("IGUA")

Ref: Exhibit A, T4, pages 4 and 5

The evidence describes the allocation of unaccounted for gas (UFG) and compressor fuel costs between regulated and unregulated storage.

a) Can the level of storage activity (injection/withdrawal) impact the volume of UFG, as it does the volume of compressor fuel used?

b) What is the ratio of actual unregulated storage activity to actual regulated storage activity used for allocating storage costs in each of 2008 and 2009? Please detail how that ratio was derived.

c) The evidence indicates that the 2007 cost allocation study includes an allocation of \$0.179 million of costs associated with the purchase of 3rd party storage to the unregulated storage operations. Please explain who this storage is purchased from, and how the costs were treated (i.e. expensed or capitalized) in each of 2007, 2008 and 2009 cost allocations.

Response:

a) Yes, the level of storage activity can impact UFG.

b) Storage compressor fuel is allocated monthly to the unregulated storage activity based on the percentage of unregulated storage activity to total activity at Dawn. The average ratio for 2009 is 47.86%. The monthly detail is shown on the attached schedule.

c) The third party storage is purchased from Enbridge (Black Creek). These costs are expensed as part of Union's gas costs. Cost's of \$0.179 million were allocated to Union's unregulated storage operations in each of 2007, 2008 and 2009.

2009 Compressor Fuel

Line No.	Month	Total Storage Compressor Fuel ($000's)	Unregulated Activity (GJs)	Total Storage Activity (GJs)	%	Unregulated Fuel
1	January	(3,110)	35,695,045	109,010,708	32.74%	(1,018)
2	February	(2,347)	20,378,176	57,871,377	35.21%	(826)
3	March	(1,317)	24,345,878	54,617,207	44.58%	(587)
4	April	(98)	22,456,426	41,312,624	54.36%	(54)
5	May	(938)	36,727,166	55,825,299	65.79%	(617)
6	June	(1,136)	31,738,231	47,386,195	66.98%	(761)
7	July	(687)	22,689,703	31,707,789	71.56%	(491)
8	August	(411)	29,700,027	60,124,708	49.40%	(203)
9	September	(537)	24,599,030	43,281,450	56.84%	(305)
10	October	(177)	14,181,066	29,238,510	48.50%	(86)
11	November	(56)	11,865,076	26,175,613	45.33%	(26)
12	December	(132)	26,818,146	72,733,873	36.87%	(49)
	Total	(10,947)	301,193,970	629,285,352		(5,023)

$$\frac{301,193,970}{629,285,352} \quad 47.86\%$$

UNION GAS LIMITED

Answer to Interrogatory from
Industrial Gas Users Association ("IGUA")

Ref: Exhibit A, T4, page 14, *et seq.*

The evidence indicates that O&M "storage support costs" are allocated based on the activities related to storage operations conducted by the various cost departments.

Many of the cost items listed on Table 3 rely on departmental estimates of time spent on regulated vs. unregulated storage operations. What process is used to verify/track/check/update the veracity of these estimates?

Response:

Estimates of time spent on regulated vs. unregulated storage operations are reviewed as part of the annual budget process. These estimates are based on the percentage of work that will be done for activities related to the unregulated storage operations. Any significant changes to these estimates are reflected in the year the activity occurs.

UNION GAS LIMITED

Answer to Interrogatory from
City of Kitchener ("Kitchener")

Ref: Exhibit A, Tab 1, page 8, Table 2

Please separately quantify the three cost components to "Interest, return and income taxes" for 2009 and 2008 and provide the detailed calculations which support each cost component. Please explain why "Interest, return and income taxes" disproportionately increased by $ 15.003 million, or about 82%, from 2008 to 2009 while "Storage revenue" increased by $ 24.866 million, or about 23%.

Response:

The table below quantifies the cost components of interest, return and income taxes for 2009 and 2008.

	2009			2008		
	Investment ($000's)	Weighted Average Rate	Cost ($000's)	Investment ($000's)	Weighted Average Rate	Cost ($000's)
Interest	232,557	4.95%	11,507	142,861	4.95%	7,069
Return	317,617	4.48%	14,220	183,691	3.96%	7,278
Income taxes		34.56%	7,510		34.81%	3,886
			33,237			18,233

Interest and return = Investment x weighted average rate.

Income taxes = [Return / (1 – tax rate)] – Return.

The increase in interest, return and income taxes in 2009 results from a full year impact of the storage investment and purchased storage capacity from 2008 and the new investment and purchased storage capacity in 2009.

UNION GAS LIMITED

Answer to Interrogatory from
City of Kitchener ("Kitchener")

Ref: Exhibit A, Tab 2, page 9, lines 6 to 20

Please explain why the entire net tax expense of $ 3.5 million arising from the different tax rates applied to the deferral accounts (where the 2010 tax rate is lower than the 2009 tax rate) is included in Union's 2009 utility earnings instead of shared 50 / 50 between ratepayers and the shareholder in a similar treatment to Federal and Provincial Tax changes in accordance with the Board's EB-2007-0606 Decision. Please explain why the net tax expense adjustment was not included in the 2008 utility earnings sharing.

Response:

Including the $3.5 million of tax expense arising from the change in the tax rates applied to the deferral accounts in earnings sharing has the effect of sharing the cost 50/50 with ratepayer similar to the deferral treatment without building the impact into rates on an ongoing basis. The affect on the 2008 tax expense was less significant and did not trigger a review of the costs to be included at the time.

UNION GAS LIMITED

Answer to Interrogatory from
City of Kitchener ("Kitchener")

Ref: Exhibit A, Tab 2, page 10

The actual 2009 ROE is 11.07%. Please confirm that Union's forecast of 2009 ROE prepared one year ago for EB-2009-0101 [per Exhibit A, Appendix C, Schedule 2, Page 1, updated] was 10.37%. Please prepare a schedule in a similar format to Table 1 on Page 1 of Tab 2 which compares Actual 2009 with Forecast 2009.

Response:

Union's actual 2009 ROE is 11.22% as filed in Union's corrected evidence package on June 25, 2010. Confirmed, Union's forecasted ROE for 2009 was 10.37%. Please see the attachment.

Table 1
Calculation of Revenue Deficiency/(Sufficiency) from Utility Operations
For the Year Ended December 31
($millions)

Line No.	Particulars	Forecast 2009	Actual 2009	Variance Actual vs Forecast
		(a)	(b)	(c) = (b)-(a)
1	Gas distribution margin	683.0	680.2	(2.8)
2	Transportation	169.0	177.3	8.3
3	Other revenue	26.0	26.7	0.7
4	Expenses	587.0	575.4	(11.6)
5	Income taxes	29.0	28.8	(0.2)
6	Utility income	262.0	280.0	18.0
7	Cost of Capital	261.0	260.2	(0.8)
8	Revenue deficiency/(sufficiency) after tax	(1.0)	(19.8)	(18.8)
9	Provision for income taxes on deficiency / (sufficiency)	(0.5)	(9.8)	(9.3)
10	Distribution revenue deficiency/(sufficiency	(1.5)	(29.6)	(28.1)
11	Storage premium adjustment	22.0	22.0	-
12	Total revenue deficiency/(sufficiency)	(23.5)	(51.6)	(28.1)

UNION GAS LIMITED

Answer to Interrogatory from
City of Kitchener ("Kitchener")

Ref: EB-2009-0101, Exhibit B, Tab 4, Schedule 7

Please update the Attachment to this Exhibit from EB-2009-0101 to include 2009 Actual and Union's current Forecast for 2010 and 2011.

Response:

Please see the attachment. The current forecast for 2010 and 2011 is not relevant and will not be provided. The forecast information in EB-2009-0101 was required to address the issue of earnings in excess of 300 bps. This issue was settled by a change in sharing and is not an issue in this case.

Line No.		Actual 2001	2002	2003	2004	2005	2006	2007	2008	2009
1	Allowed Return on Equity (%)	9.95	9.95	9.95	9.62	9.63	8.89	8.54	8.81	8.47
2	ROE before earnings sharing	9.30	10.75	12.75	11.36	11.38	8.80	9.99	13.35	11.22
3	ROE after earnings sharing	9.30	10.75	11.98	11.36	10.79	8.48	9.99	11.46	10.85
4	Excess Earnings shared with customers (after tax) $ millions *	-	-	8.30	-	6.27	3.60	-	22.72	4.73
5	Excess Earnings retained by Union (after tax) $ millions	-	-	8.30	-	6.27	3.60	-	31.99	29.78
6	Actual heating degree days	3,748	3,976	4,246	4,126	4,041	3,605	3,928	4,161	4,130
7	Normal heating degree days	4,288	4,284	4,268	4,170	4,180	4,177	4,139	4,070	4,034
8	Infranchise throughput (10^6 m^3)	13,896	14,883	14,827	14,450	14,198	13,207	13,878	13,844	12,849
9	Exfranchise short term throughput (10^6 m^3)	1,107	1,717	2,437	901	1,700	739	1,682	2,501	2,680
10	Exfranchise long term throughput (10^6 m^3)	17,506	20,630	18,333	21,067	22,032	19,864	22,034	22,681	19,988

* Note: Customers share in pre-tax earnings

UNION GAS LIMITED

Answer to Interrogatory from
City of Kitchener ("Kitchener")

Ref: Exhibit A, Tab 4, page 9, line 13 to 16

For purposes of the horsepower allocation method to separate Dawn compression costs between storage and transmission functions, are Union's gas fired-power generation customers using high deliverability services deemed to be dispatched and included in design day demand? Is there an alternative allocation method that recognizes any off-winter peak diversity benefit from the gas-fired power generators using unregulated storage services such as high deliverability that would change the allocation of costs to in-franchise storage service based on winter peak demand?

Response:

No, the horsepower allocation used to separate Dawn compression costs between storage and transmission functions does not include Union's gas-fired power generation customers using high-deliverability services.

The unregulated storage assets used to provide high-deliverability services were developed subsequent to the Board's NGEIR decision and did not exist when Union's Board-approved 2007 horsepower allocation was calculated. Accordingly, these assets are not included in Union's adjusted Board-approved 2007 horsepower allocation.

Union is not aware of an allocation method that recognizes any off-winter peak diversity benefit from customers, including gas-fired power generators, using unregulated storage services that would change the allocation of costs to in-franchise storage service based on winter peak demand.

UNION GAS LIMITED

Answer to Interrogatory from
City of Kitchener ("Kitchener")

Ref: Exhibit A, Tab 4, page 17, lines 15 and 16

In 2009, did Union's in-franchise customers fully utilize the 92.1 PJ of storage, the cost of which was recovered in their regulated rates? If not, how much storage did its in-franchise customers utilize in 2009? What is Union's forecast of the utilization of storage by its in-franchise customers for 2010 and 2011 relative to the 92.1 PJ of storage included in regulated rates?

Response:

The 2009 operational plan allocated 90.5 PJ of storage space for 2009/2010 winter for in-franchise utilization. The difference between the 100 PJ reserved for in-franchise use and the 90.5 PJ allocated for 2009 was sold as short-term storage. Any margin from the sale of this space was included in the short-term deferral account 179-170.

The 2010/2011 in-franchise storage allocation is 89.7 PJs.

UNION GAS LIMITED

Answer to Interrogatory from
City of Kitchener ("Kitchener")

Ref: Exhibit A, Tab 4, page 21, lines 16 and 17

a) Does Union's use of the verb "minimized" infer that some cross subsidization between its regulated and unregulated storage operations has occurred, in fact or practice, since implementation of the Board's NGEIR Decision in EB-2005-0551? If so, to what extent did cross subsidization occur and which storage operations were subsidized by the other? Does Union expect some level of cross subsidization to continue, increase or decrease in future under its existing methodology to allocate storage costs to match the revenues attributed to regulated and unregulated operations (short-term and long-term storage)?

b) To the extent that judgement is necessarily used by Union to allocate the costs to provide storage services to regulated and unregulated operations from integrated assets and resources, does Union agree that materially different allocations of cost could result from different but alternatively reasonable applications of judgement? In Union's view, in which specific areas where judgement must be applied to allocate the integrated costs to provide storage services to both regulated and unregulated operations does the greatest risk of inappropriate cross subsidies lie? Has Union considered allocation methodologies for its integrated storage operations other than its existing approach post-NGEIR to test sensitivities to the results and the reasonableness of those results in comparison to the existing approach?

Response:

a) Union's use of the verb "minimized" is meant to indicate that cost allocation studies are used to provide an indication of cost responsibility at a specific point in time and cannot be viewed as a precise measurement of the actual cost to serve a particular rate class, much less a particular customer. As such, Union cannot precisely measure whether cross-subsidies may exist between its regulated and unregulated storage operations since the implementation of the Board's NGEIR Decision in EB-2005-0551.

As per the Board's decision in EB-2005-0551 at p.74 that Union's cost allocation study is adequate for the purposes of separating regulated and unregulated storage costs, Union used allocation methods consistent with its 2007 Board approved cost allocation study to separate its regulated and unregulated storage operations.

Using allocation methods consistent with Union's cost allocation study, which was closely examined by intervenors and approved by the Board in Union's 2007 cost of service proceeding, ensures that any cross-subsidy between regulated and unregulated storage operations is minimized.

b) Refer to (a).

UNION GAS LIMITED

Answer to Interrogatory from
City of Kitchener ("Kitchener")

Ref: Exhibit A, Tab 4

Please complete the attached schedule for 2007 Forecast (upon which base rates were set), 2008 Actual and 2009 Actual.

Response:

The information is not available to complete the schedule requested.

Union has developed processes to capture and record revenues and costs related to unregulated storage operations so that these amounts can be removed to establish revenues and costs for the utility operations. The majority of the revenues from utility operations are from bundled services that include storage but don't separately identify the amount for storage.

Costs for the storage function are only determined through the cost allocation study as part of the rate design process and are not captured and recorded for the storage function.

UNION GAS LIMITED

Answer to Interrogatory from
London Property Management Association ("LPMA")

Ref: Exhibit A, Tab 1, page 2

Union indicates that the average historical impact of not truing-up the deferral disposition recovery was approximately $320,000 per year to the benefit of the ratepayer.

a) Please indicate for what period this average historical impact was calculated.

b) For each year included in the historical average, please provide the total credit/debit to be cleared to customers and the over/under recovery amount included in the calculation of the historical average.

Response:

Please see the response at Exhibit B2.1.

UNION GAS LIMITED

Answer to Interrogatory from
London Property Management Association ("LPMA")

Ref: Exhibit A, Tab 1, page 6-8

With respect to the long-term peak storage services (account 179-72) please indicate if there has been any change in the methodology used to allocate operating costs to Union's unregulated storage activity from that approved by the Board in EB-2009-0052. If yes, what is the impact on the ratepayer portion of the deferred margin if the methodology used and approved in EB-2009-0052 were to be maintained?

Response:

There has been no change in the methodology used to allocate costs to Union's unregulated storage activity from EB-2009-0052.

UNION GAS LIMITED

Answer to Interrogatory from
London Property Management Association ("LPMA")

Ref: Exhibit A, Tab 1, Table 4

Please explain why any GST costs are included in the amounts to be recovered from ratepayers. Has or will Union claim any of the GST included in these amounts as input tax credit? If not, why not?

Response:

When the LPP class action was settled, the total amount to be paid as a result of the settlement was included in the LPP deferral account. The total LPP class action settlement of $5.628 million included $0.148 million of GST ($0.138 million in GST relating to Class Counsel's Costs and Fees and $0.010 million in GST relating to disbursements). The amount included in the LPP deferral account incorrectly included the GST of $0.138 million which will be recovered from Revenue Canada, not from ratepayers. This resulted in an overstatement of the LPP deferral account. The revised balance in the account is $5.651 million as reflected in Union's corrected evidence filed on June 25, 2010.

UNION GAS LIMITED

Answer to Interrogatory from
London Property Management Association ("LPMA")

Ref: Exhibit A, Tab 2, Table 1 and page 2 and Exhibit A, Appendix A, Schedule 2

a) Please reconcile the increase in Expenses (line 6) in Table 1 between 2009 and 2010 of $10 million with the increase in operating expenses of $7 million described at lines 15-18 of page 2.

b) Is the difference of $3 million between the two figures related to the Lobo C write off and the foreign exchange loss shown in Exhibit A, Tab 2, Schedule 2?

Response:

a) The increase in expenses is related to the Lobo C write-off and the foreign exchange loss shown at Exhibit A, Tab 2, Schedule 2.

b) Please see the response to part a) above.

UNION GAS LIMITED

Answer to Interrogatory from
London Property Management Association ("LPMA")

Ref: Exhibit A, Tab 2, page 9

a) Please explain why Union is including the net tax expense of $3.5 million related to the difference in 2009 and 2010 tax rates in deferral accounts when it did not do so in 2008.

b) Is the amount included as a net tax expense only driven by changes in the tax rates from one year to another, or is the amount also impacted by changes in the balance in the associated deferral accounts? In particular, if there was no change in the income tax rate between 2009 and 2010, what net tax expense would be included in the calculation of utility earnings?

c) Has Union ever included the net tax expense associated with deferral accounts when calculating the utility earnings sharing for previous years? If yes, please provide details.

d) How much would the earnings sharing for ratepayers have been affected if this adjustment had been included in the 2008 utility earnings sharing?

Response:

a) The change in the tax rates between 2009 and 2010 combined with the decrease in cost of gas during 2009 resulted in a significant increase in Union's tax expense for 2009. The effect on the 2008 tax expense was less significant and did not trigger a review of the costs at the time.

b) The amount included as a net tax expense is driven by the change in the tax rate from one year to another applied to the change in the deferral account balance. If the income tax rate did not change between 2009 and 2010 the current tax expense to be paid in 2009 on the amounts deferred for refund to ratepayers would be offset entirely by the deferred tax credit for the payment of deferred amounts in 2010.

c) Yes, in prior years the Earnings Sharing calculation was based on corporate tax and not subjected to a deemed utility calculation. Deferrals were part of this calculation and incorporated changes in the tax rates. Please see the attachment for the period 2001-2006.

d) If the $0.4 million was included in the 2008 utility earnings sharing calculation the amount due to customers would have increased by $0.334 million.

Union Gas Ltd.
Deferred Tax Re-price Impact on Regulatory Deferral Accounts
2001 - 2006

Line No.		Actual 2000	Actual 2001	Actual 2002	Actual 2003	Actual 2004	Actual 2005	Actual 2006	
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	
1	Deferral balances at Dec 31	(35,455,896)	186,644,169	95,955,239	(44,259,616)	(52,746,092)	29,494,438	(191,824,855)	
2	Year over year change in balance (line 1)		222,100,065	(90,688,930)	(140,214,855)	(8,486,476)	82,240,530	(221,319,293)	
	Tax rates								
3	Federal		28.12%	26.12%	24.12%	22.12%	22.12%	22.12%	22.12%
4	Provincial		13.62%	12.50%	12.50%	14.00%	14.00%	14.00%	14.00%
5	Total (line 3 + line 4)		41.74%	38.62%	36.62%	36.12%	36.12%	36.12%	36.12%
6	Current Tax Expense (line 2 x line 5)		(92,704,567)	35,024,065	51,346,680	3,065,315	(29,705,279)	79,940,529	
7	Deferred Tax Expense (year over year change (line 9)		86,881,269	(36,943,170)	(51,125,382)	(3,065,315)	29,705,279	(79,940,529)	
8	Net Tax Expense (benefit)		(5,823,298)	(1,919,105)	221,298	-	-	-	
9	Deferred tax asset (liab) (line 1 x line 5 of next year)	14,799,291	(72,081,978)	(35,138,809)	15,986,573	19,051,888	(10,653,391)	69,287,138	

UNION GAS LIMITED

Answer to Interrogatory from
London Property Management Association ("LPMA")

Ref: Exhibit A, Tab 2, Appendix B, Schedule 1

a) Please provide full details and an explanation for the Lobo C/Brantford-Kirkwall write off of $1.889 million shown at line 11.

b) Please provide full details and an explanation for the loss on foreign exchange of $1.207 million shown at line 14.

c) Please explain how the $46,000 portion of the $1.207 million foreign exchange loss associated with non-utility storage was calculated.

Response:

a) The Lobo C and Brantford-Kirkwall projects were targeting to be in-service in November 2011 and were cancelled as a result of turnback of Dawn to Parkway capacity by TCPL. This decision resulted in the write-off of $1.889 million. Details of the write-off are as follows:

	$ millions
Design	$1.373
Material	0.367
Other	0.149
Total write-off	$1.889

b) The $1.2 million foreign exchange loss is the impact of the revaluation of US currency on hand during the year and the strengthening Canadian dollar.

c) The allocation to unregulated storage was approximately 4% based on the proportion of unregulated operating costs as a percent of total operating cost.

UNION GAS LIMITED

Answer to Interrogatory from
London Property Management Association ("LPMA")

Ref: Exhibit A, Tab 2, pages 10-11

a) What is Union's normalized actual return on equity for 2009?

b) At what level would the X factor have had to been in 2009 to result in a normalized return on equity equal to the benchmark ROE of 8.47%?

Response:

a) Union's utility return on equity adjusted for weather normalization is 11.01%.

b) The X factor would have had to be 7.26%.

UNION GAS LIMITED

Answer to Interrogatory from
London Property Management Association ("LPMA")

Ref: Exhibit A, Tab 3

Are all of Union's allocation proposals consistent with the most recent approved allocation methodology for each account? If not, or if some accounts have not been approved for disposal until now, please provide details.

Response:

Yes, for Union's deferral accounts where the allocations have most recently been approved by the Board in EB-2009-0052 (Union's 2008 Deferral Disposition), the 2009 allocation proposals are consistent with the allocations approved by the Board in that proceeding.

The IFRS Conversion Costs Account (179-120) was approved by the Board in its December 17, 2009 decision in EB-2009-0354. The allocation methodology to dispose of the balance in this account has not yet been approved by the Board and is requested as part of this proceeding.

The costs in the IFRS Conversion Costs Account are primarily Finance and IT-related costs. In Union's Board approved 2007 cost allocation study these types of costs are classified as Administrative & General Expenses. Accordingly, Union proposes to allocate the balance in this account to rate classes in proportion to 2007 Board-approved EB-2005-0520, Exhibit G3, Tab 2, Schedule 2, Administrative & General O&M Expense, updated for the EB-2005-0520 Board Decision.

UNION GAS LIMITED

Answer to Interrogatory from
London Property Management Association ("LPMA")

Ref: Exhibit A, Tab 4, page 5

a) Please explain how the $0.179 million of costs associated with the purchase of third party storage space to the unregulated storage operations was calculated. What was the total cost of this third party storage space?

b) What is the current (2009) total cost of third party storage space and how much of this is allocated to the unregulated storage operations?

Response:

a) The $0.179 million of costs associated with third party storage allocated to unregulated storage operations is the amount allocated to C1 storage in the 2007 approved cost allocation. The total cost of third party storage for 2007 was $0.396 million.

b) The actual cost of this third party storage in 2009 was $0.327 million. Union continued to allocate $0.179 million to unregulated storage operations in 2009.

UNION GAS LIMITED

Answer to Interrogatory from
London Property Management Association ("LPMA")

Ref: Exhibit A, Tab 4, page 4 and Schedule 2

a) Please reconcile the 100 PJs of regulated storage capacity referred to on page 4 with the figure of 91.8 PJs shown as in-franchise storage space in Schedule 2.

b) Footnote 1 in Schedule 2 indicates that storage space allocators exclude space used for system integrity. How have the system integrity costs been allocated between the regulated and unregulated storage functions?

Response:

Please see the response at Exhibit B4.18.

UNION GAS LIMITED

Answer to Interrogatory from
London Property Management Association ("LPMA")

Ref: Exhibit A, Tab 4, pages 11-13

Please explain the reasoning behind using the O&M storage support costs allocator (2.52%) in the calculation of general plant, excluding vehicles.

Response:

General plant includes buildings, office furniture and equipment, computers, tools and communication equipment. These costs support the organization and should be allocated in the same proportion as the operating costs which are primarily costs associated with employees. The O&M storage support allocator is the proportion of unregulated storage O&M to total operational O&M.

UNION GAS LIMITED

Answer to Interrogatory from
London Property Management Association ("LPMA")

Ref: Exhibit A, Tab 2, Appendix B, Schedule 1 and Exhibit A, Tab 4, Table 5

Does the 2009 depreciation expense of $194,485 shown in Schedule 1 of Appendix B of Exhibit A, Tab 2 include depreciation calculated on unregulated assets using the unregulated depreciation rates shown in Table 5 of Exhibit A, Tab 4 and on regulated assets using only the Board approved regulated depreciation rates, also shown in Table 5 of Exhibit A, Tab 4? If not, please explain how the total depreciation expense of $194,485 is calculated.

Response:

Yes, utility depreciation was calculated using Board-approved rates. Table 5 of Exhibit A, Tab 4 outlines only a subset of the Board approved rates as it details the rates applicable to underground storage. Depreciation on unregulated underground storage assets was calculated using Table 5 of Exhibit A, Tab 4.

UNION GAS LIMITED

Answer to Interrogatory from
London Property Management Association ("LPMA")

Ref: Exhibit A, Tab 4

How has Union allocated any capital cost allowance associated with the storage assets and general plant and vehicles between the regulated and unregulated storage functions?

Response:

CCA is not allocated between regulated and unregulated operations. The allocation of the assets to unregulated operations allows Union to separately calculate capital cost allowance. The resulting timing difference enables Union to calculate and record future income tax expense for the unregulated operations.

UNION GAS LIMITED

Answer to Interrogatory from
London Property Management Association ("LPMA")

Ref: Exhibit A, Tab 4, pages 5-11 and Schedules 2, 4 and 5

a) How has base pressure gas been allocated between the regulated and unregulated storage functions? Is it based on the 40.2% storage space figure shown in Exhibit A, Tab 4, Schedule 2?

b) Schedule 5 shows the addition of $1.660 million as a capital addition to base pressure gas in 2009 for the unregulated storage function. Was there any addition to the regulated storage function for base pressure gas in either 2008 or 2009?

Response:

a) Please see the response at Exhibit B1.16.

b) No, there were not any additions to regulated storage base pressure gas in either 2008 or 2009.

UNION GAS LIMITED

Answer to Interrogatory from
School Energy Coalition

Ref: Ex A/Tab 1

With respect to the General exhibit:

a) Page 6. Please provide the specific reference in EB-2005-0551 supporting the 79% figure.

b) Page 7. Please provide the specific reference in EB-2005-0520 approving the methodology described.

c) Pages 10, 19, 25. Please provide the current draft of the 2009 DSM audit including a full explanation of any adjustments proposed by the auditor or the EAC with respect to the LRAM, SSM, MT Incentive or DSMVA together with the status/timing of the final audit opinion.

d) Pages 11-12. Please reconcile the figures of $20.338 million and $18.870 million on page 11 with the figures of $22.030 million and $20,570 million on page 12, a difference of $1.7 million in each case.

e) Page 13. Please provide a copy of the Settlement Agreement for LPP, or an evidence reference if it is already on the record in this proceeding.

f) Page 15. Please provide details of the actual payments by the Applicant to the Winter Warmth Fund for each of 2007 and 2008, together with the forecasts (i.e. budgeted amounts) for 2009 through 2011 before the settlement. Please provide the actual payment by the Applicant to the Winter Warmth Fund in 2009, and the current forecasts or budgets for 2010 and 2011.

g) Page 20. Please confirm that none of the 2008 IFRS costs were included in the Applicant's expenses for the calculation of 2008 earnings sharing.

h) Page 20. Please provide details with respect to the $398,000 of incremental employee costs incurred, including what positions were added and at what times, and what non-salary costs are included in that category.

i) Page 20. Please provide a list of consulting contracts included in the $2,179 million figure, including the name of the consultant, nature of the work done, time period of the contract, and description of the deliverable(s) that resulted from the work.

j) Page 26. Please provide a calculation of the tax changes credit of $1.5 million.

Response:

a) EB-2005-0551, Decision with Reasons, November 7, 2006, Page 72.

b) EB-2005-0520, Decision and Final Rate Order, December 19, 2006, Page 5.

c) As noted in Exhibit B1.05, Union is working with the Auditor and Union's EAC to address concerns with the Auditor's initial draft 2009 Audit Report. Union will file the Audit Report by August 31, 2010.

d) The $1.7 million in each case represents indirect costs which are already included in rates. As the DSMVA only allows recovery of direct costs an adjustment was made to both the budget and the total DSM spend to account for the $1.7 million indirect costs included in rates.

e) Please see the attachments.

f) Union contributed $0.170 million in 2007 and $0.198 million in 2008 through the Spectra Energy Foundation.

   The actual payment for 2009 and the budgeted payment for 2010 and 2011 is $1.8 million annually.

g) The 2008 earnings sharing calculation included IFRS Operating expenditures (consulting costs and employee costs).

h) Please see the response at Exhibit B1.06.

i) Please see the response at Exhibit B1.06.

j) Please refer to EB-2009-0275 Rate Order Working Papers Schedule 15, line 20, column (c) which details the calculation of tax credit changes of $1.431 million which was approved by the Board in its Decision dated November 25, 2009. An increase in actual 2009 volume and demand activity over forecasted levels resulted in an increased credit to customers of $0.069 million totalling $1.500 million.

Court File No. 43320

ONTARIO
SUPERIOR COURT OF JUSTICE

BETWEEN:

LAURIE WALKER

Plaintiff

- and -

UNION GAS LIMITED

Defendant

Proceeding under the *Class Proceedings Act, 1992*

Minutes of Settlement

The plaintiff and the defendant, by their solicitors, hereby agree to settle this proceeding on the following terms (the "Settlement Agreement").

Final Resolution

1. The parties agree that this Settlement Agreement is intended to resolve and, upon Court approval, does resolve all matters asserted in this action or which could have been asserted in this action.

No Admission of Liability

2. It is understood and agreed that nothing in this Settlement Agreement constitutes an admission of liability or obligation on the part of the defendant and any liability or obligation is, in fact, denied. It is further understood and agreed that notwithstanding the defendant's belief that it is not liable for the claims asserted in the action, the

defendant is entering into this Settlement Agreement to avoid the expense, inconvenience, and burden of litigation and the related distraction and diversion of its personnel and resources, to put to rest this controversy and to avoid the risks inherent in uncertain litigation.

Consent to Certification for Settlement Only

3. The parties agree that the action shall be certified as a class proceeding solely for purposes of settlement and the approval of the Settlement Agreement by the Court.

Consent to Orders

4. The plaintiff shall bring a motion to the Court seeking an order:

(a) setting a date for a fairness hearing; and

(b) authorizing the publishing of notice to the proposed class members.

This parties consent to an order in the form attached as Schedule "A" (the "Draft Order").

5. The plaintiff (and class counsel with respect to their fee approval) shall bring a motion to the Court seeking a judgment:

(a) certifying this action as a class proceeding for settlement purposes only and appointing a representative plaintiff;

(b) approving the Settlement Agreement and the fees, disbursements and applicable taxes for class counsel; and

(c) dismissing the Action.

The parties consent to judgment substantially in the form attached as Schedule "B" (the "Draft Judgment").

Settlement Amounts

6. Subject to Court approval, the defendant agrees to pay a total settlement amount of $9,227,500, allocated as follows:

Payment to the class	6,000,000
Class Counsel's costs and fees	2,750,000
GST on costs and fees	137,500
Disbursements inclusive of GST	200,000
Notice to class, up to	140,000
Total	$9,227,500

7. The parties agree that the payment to the class would be made as follows: (a) payment in the amount of $600,000 to the Class Proceedings Fund; and (b) payment in the amount of $5,400,000 by *cy pres* distribution in three equal, annual installments to Winter Warmth program(s) operating in Union Gas' service areas.

8. The parties agree that any cost related to publishing notice to the class in excess of $140,000 shall be deducted from the amount allocated to the Winter Warmth program(s).

9. The parties agree that any amount ordered to be paid to the plaintiff as compensation for serving as class representative shall be deducted from the amount allocated to class counsel's costs and fees.

10. The parties agree that any disbursements funded by the Class Proceedings Fund shall be repaid to the Fund and deducted from the amount allocated to disbursements. If the total disbursements, including those funded by the Class Proceedings Fund, and related GST are greater than the $200,000 referred to in paragraph 6, then class counsel shall absorb any outstanding amount for disbursements out of their fees.

11. The parties agree that, subject to approval by the Court, the settlement amounts will be paid in the manner described in the Draft Judgment.

Power of Court Regarding *Cy Pres* Distribution

12. The parties agree that, if the Court is not satisfied with the provisions regarding the implementation of the *cy pres* distribution to the Winter Warmth program(s), as set out in paragraphs 10 and 11 of the Draft Judgment, then the Court may amend paragraphs 10 and 11 as it sees fit, provided that:

(a) the *cy pres* distribution continues to be directed to Winter Warmth program(s) or similar program(s) operating in Union Gas' service areas;

(b) the *cy pres* distribution is made in three equal, annual installments;

(c) any amount of the *cy pres* distribution not used by the Winter Warmth program(s) in the three year period shall be directed to Winter Warmth program(s) in Union Gas' service area for the subsequent year(s);

(d) the organization that will administer the program (the "Administrator") consents to any amendments affecting it;

(e) in the event the Administrator refuses or fails to consent within 30 days after any such amendments are provided to it, then the Court shall conduct a further hearing to consider further amendments; and

(f) in the event the amendments require any future court proceedings then the reasonable legal costs of the plaintiff, defendant and the Administrator regarding any such future court proceedings shall be paid out of the *cy pres* distribution.

13. The parties consent to the Court making any necessary consequential amendments to the notice provisions in paragraph 12 of the Draft Judgment.

Power of Court Regarding Fees, etc.

14. The parties agree that if the Court does not approve the amounts for class counsel's costs and fees, GST, disbursements and/or class representative's compensation, then they consent to the Court varying paragraphs 5, 6, 7, and 10(c) of the Draft Judgment by decreasing any or all of these amounts and they consent to the Court varying paragraphs 5, 9 and 10(a), (b) of the Draft Judgment by increasing the amounts allocated to the payment to the class. The parties consent to the Court making any necessary consequential amendments to the notice provisions in paragraph 12 of the Draft Judgment. For greater certainty, this provision is without prejudice to class counsel's appeal rights in the event the Court does not approve the proposed legal fees, and if on appeal class counsel's legal fees are increased, then the Judgment shall be varied accordingly.

Release

15. Upon settlement approval becoming final as contemplated by paragraph 5, the defendant, and its parent and affiliates, including their present and former officers, directors, agents, servants, employees, successors, heirs, executors, estate trustees, administrators and assigns, in consideration of the payment by the defendant of the settlement funds, will be released of or from all actions, causes of action, suits, debts, dues, accounts, bonds, covenants, contracts, claims and demands

whatsoever by the plaintiff, all class members who do not opt out and class counsel, as more particularly described in paragraph 17 of the Draft Judgment.

Settlement Void if not Approved by Court

16. This Settlement Agreement is subject to Court approval as provided by the *Class Proceedings Act*. In the event the Court does not approve this Settlement Agreement, the Settlement Agreement shall have no further force and effect, shall not be binding on the parties and shall not be used as evidence or otherwise in the litigation of this action.

Execution in Counterpart

17. These minutes of settlement may be executed in counterpart.

Dated at Toronto this 16 day of December 2008.

Torys LLP
per

for Torys LLP
Co-Counsel for the defendant

Siskinds LLP
per

Co-Counsel for the defendant

Theall Group LLP
per

Michael McGowan

Co-counsel for the Plaintiff

Lerners LLP
per

Ian Leach per M McGowan

Co-counsel for the Plaintiff

M. Paul Downs, Barrister and Solicitor
per

M Paul Downs per M McGowan

Co-counsel for the Plaintiff

Schedule A
(to minutes of settlement)

Court File No. 43320

ONTARIO
SUPERIOR COURT OF JUSTICE

THE HONOURABLE MR.	)	DAY, THE TH
	)	
JUSTICE CUMMING	)	DAY OF DECEMBER, 2008

BETWEEN:

LAURIE WALKER

Plaintiff

- and -

UNION GAS LIMITED

Defendant

Proceeding under the *Class Proceedings Act, 1992*

ORDER

THIS MOTION FOR DIRECTIONS, made by the plaintiff, was heard this day at the Court House, 330 University Avenue, Toronto, Ontario.

ON BEING ADVISED that the parties have entered into minutes of settlement dated December ___, 2008 (the "Settlement Agreement"), subject to Court approval;

AND ON READING the Settlement Agreement,

1. THIS COURT ORDERS that it will consider whether to:

(a) certify this action as a class proceeding for settlement purposes and appoint a representative plaintiff;

(b) approve the Settlement Agreement;

(c) approve the fees, disbursements and applicable taxes for class counsel; and

(d) dismiss the Action,

at a hearing to be held on Tuesday, January 27, 2009 at 10:00 a.m. at the Court House, 330 University Avenue, Toronto, Ontario ("Fairness Hearing").

2. THIS COURT ORDERS that as soon as possible the proposed class members shall be given notice of the Fairness Hearing, substantially in the form of the notice attached as Schedule "A" (the "Fairness Hearing Notice") and substantially in the following manner:

(a) by the defendant publishing the Fairness Hearing Notice in each of the following publications:

(i) The Globe and Mail;

(ii) Burlington Post;

(iii) Chatham Daily News;

(iv) Hamilton Spectator;

(v) Kingston Whig-Standard;

(vi) Kitchener-Waterloo Record;

(vii) London Free Press;

(viii) North Bay Nugget;

(ix) Sarnia - The Observer;

(x) Sault Ste. Marie Star;

(xi) Sudbury - The Star;

(xii) Thunder Bay - The Chronicle Journal; and

(xiii) Windsor Star; and

(c) by the defendant posting the Fairness Hearing Notice on its website at www.uniongas.com/latepaymentpenaltysettlement.

3. THIS COURT ORDERS that, at the Fairness Hearing, the Court will consider any objections by proposed class members to the proposed Settlement Agreement. Proposed class members may but are not required to attend at the Fairness Hearing. Written objections are requested to be served and filed at least two days in advance of the Fairness Hearing as described in the Fairness Hearing Notice.

4. THIS COURT ORDERS that the written objections delivered in accordance with paragraph 3 shall include the following:

(a) the objector's name, address, telephone number, fax number and/or email address;

(b) a brief statement of the nature of and reason for the objection;

(c) a representation that the objector was a customer of Union Gas Limited or its predecessor, Centra Gas, and paid one or more late payment penalties between April 1, 1981 and June 7, 2002, and the address at which the objector received gas service, and, if available, a copy of bills or other documents establishing that the objector paid one or more late payment penalties between April 1, 1981 and June 7, 2002; and

(d) a statement as to whether the objector intends to attend at the Fairness Hearing in person or by counsel, and, if by counsel, the name, address, telephone number, fax number and email address of counsel.

Schedule A
(to Draft Order)

UNION GAS CLASS ACTION

NOTICE OF HEARING FOR APPROVAL OF PROPOSED CLASS ACTION SETTLEMENT AGREEMENT

PLEASE READ THIS NOTICE CAREFULLY AS IT MAY AFFECT YOUR LEGAL RIGHTS.

TO PROPOSED CLASS MEMBERS:	This notice is to all persons: (a) who have been customers of Union Gas Limited (including its predecessor, Centra Gas) ("Union Gas") and; (b) who paid one or more late payment penalties to Union Gas at any time between April 1, 1981 and June 7, 2002 ("Proposed Class Members").

1 **PURPOSE OF THIS NOTICE**

A proposed class action was commenced in Ontario in 2003, claiming damages of $90 million arising from allegedly excessive late payment penalties collected by Union Gas in the period April 1, 1981 to June 7, 2002.

Union Gas denies any wrongdoing or liability on its part. Without any admission of liability by Union Gas, the parties have reached a proposed settlement, subject to obtaining necessary court approval. The settlement is a compromise of disputed claims. Union Gas has agreed to pay the sum of $9,227,500 to settle the claims of all Proposed Class Members, in full and final settlement of all claims, including but not limited to class counsel fees, disbursements, taxes, interest and administration costs in return for a release of claims and the dismissal of the action. The settlement funds are proposed to be allocated as follows:

- Payment of $6,000,000 to benefit the class, comprising:
  - Payment of $5,400,000 over three years for the indirect benefit of Proposed Class Members to Winter Warmth programs operated in Union Gas' service area
  - Levy of $600,000 payable to the Class

Proceedings Fund, operated by the Law Foundation of Ontario to be deducted from the total payment to the class, as required by law

- Payment of class counsel's costs and fees in the amount of $2,750,000. Class counsel will not seek additional payment for their future time or expenses incurred in the proceedings.
- Payment of GST on class counsel's costs and fees in the amount of $137,500
- Payment of class counsel's and the Class Proceedings Fund's disbursements, inclusive of GST, up to $200,000
- Cost to publish notices to the class, not to exceed $140,000

A motion to certify the action as a class proceeding for the purpose of settlement, appoint the representative plaintiff and approve the proposed settlement will be heard by the Ontario Superior Court of Justice in Toronto, Ontario on **Tuesday, January 27, 2009 at 10:00 a.m. at the Court House at 330 University Avenue**.

Proposed Class Members who do not oppose the proposed settlement do not need to appear at the hearing or take any other action at this time to indicate their intention to participate in the proposed settlement.

Proposed Class Members who oppose the proposed settlement are requested to, not later than 2 p.m. on Friday January 23, 2009, serve a written objection on the plaintiff and defendant and file it with proof of service at the Court House.

The plaintiff may be served through one of her solicitors, Lerners LLP, Attn: Ian Leach, 85 Dufferin Avenue, London, Ontario, N6A 4GA. The defendant may be served through one of its solicitors either Siskinds LLP in London, (680 Waterloo St., P.O. Box 2520, London, Ontario, N6A 3V8 Attn: Michael Peerless) or Torys LLP in Toronto (Suite 3000, 79 Wellington St. West, Box 270, TD Centre, Toronto,

		Ontario, M5K 1N2, Attn: Lisa Talbot). Any written objection should include the following information: (a) the objector's name, address, telephone number, fax number and email address; (b) a brief statement of the nature of and reason for the objection; (c) a representation that the objector was a customer of Union Gas Limited or its predecessor, Centra Gas, and paid one or more late payment penalties between April 1, 1981 and June 7, 2002, and the address at which the objector received gas service, and, if available, a copy of bills or other documents establishing that the objector paid one or more late payment penalties between April 1, 1981 and June 7, 2002; and (d) whether the objector intends to appear at the hearing in person or by counsel, and if by counsel, the name, address, telephone number, fax number and email address of counsel. Should the settlement agreement receive final approval, further notices will be published at www.uniongas.com/latepaymentpenaltysettlement, and will be disseminated pursuant to the terms of the settlement agreement.
2	**DISTRIBUTIO N PROTOCOL**	If the settlement agreement is approved by the Court, the settlement payments will be paid out in accordance with the settlement agreement. Pursuant to the proposed settlement, three annual payments to indirectly benefit the Proposed Class Members will be made for Winter Warmth programs in Union Gas' service area. Any annual surplus will be used for Winter Warmth programs in the subsequent year(s).
3	**RELEASE OF CLAIMS AND THE EFFECT ON OTHER PROCEEDINGS**	If you fall within the class definition stated above, then you will automatically be included in the class and will be bound by the terms of the settlement agreement if approved by the Court, unless you opt out. This means that you will not be able to bring or maintain any other claim or legal proceeding against Union Gas (including

	AND OPTING OUT	its predecessor Centra Gas) in connection with late payment penalties unless you opt out. The deadline and procedure for opting out, and the effect of doing so, will be reviewed at the hearing, and those details will be available in a further notice to be published after the settlement is approved by the Court.
4	**LEGAL FEES AND CLASS PROCEEDINGS FUND LEVY**	The plaintiff retained the law firms of Lerners LLP, Theall Group LLP and M. Paul Downs, Barrister and Solicitor, to represent her and the class in the lawsuit, on the basis that they were only to be paid if they were successful in the litigation. Class counsel and the Class Proceedings Fund were responsible for funding all disbursements incurred in pursuing this litigation. The fees, expenses, and taxes approved by the Court will be deducted from the total settlement funds. The plaintiff received financial support from the Class Proceedings Fund. As a result, if the settlement is approved, the class is required by statute to pay to the Class Proceeding Fund a 10% levy on the amount of the settlement funds to which the class is entitled after deduction of all costs of the administration and the fees, disbursements and taxes of class counsel.

5	**FURTHER INFORMATION**	The court papers in this lawsuit are available for inspection at the office of the Superior Court of Justice, Court House, 80 Dundas St., London, Ontario, Court file #43320. **[confirm]** Questions about this notice, the proposed settlement or the action should be directed and requests for a copy of the minutes of settlement showing full details of the settlement should be directed to class counsel, c/o: Lerners LLP, 85 Dufferin Avenue, London, Ontario, N6A 4GA Attention: Ian Leach Tel. (519) 672-4510, ext. 6377 Fax (519) 932-3377 Email: lleach@lerners.ca Do not direct inquiries to the Court.
6	**INTERPRETATION**	If there is a conflict between the provisions of this notice and the settlement agreement, the terms of the settlement agreement shall prevail.

PUBLICATION OF THIS NOTICE HAS BEEN AUTHORIZED BY THE ONTARIO SUPERIOR COURT OF JUSTICE

Questions about this notice should NOT be directed to the Court.

Schedule B
(to minutes of settlement)

Court File No. 43320

ONTARIO
SUPERIOR COURT OF JUSTICE

THE HONOURABLE MR.	)	TUESDAY, THE 27TH
	)	
JUSTICE CUMMING	)	DAY OF JANAURY, 2009

BETWEEN:

LAURIE WALKER

Plaintiff

- and -

UNION GAS LIMITED

Defendant

Proceeding under the *Class Proceedings Act, 1992*

JUDGMENT

THIS MOTION, made by the plaintiff for certification of this action as a class proceeding for the purpose of settlement and for judgment pursuant to subsection 29(2) of the *Class Proceedings Act, 1992* in accordance with the terms of the minutes of settlement dated December __, 2008 (the "Settlement Agreement"), and made by Class Counsel for approval of their fees, was heard this day, at the Court House, 330 University Avenue, Toronto, Ontario.

ON READING the affidavit of Laurie Walker, sworn, the affidavit of Dorothy Fong, sworn, and on reading the minutes of settlement and the consent of [the Administrator], filed, and on hearing the submissions of counsel for the parties,

AND ON BEING ADVISED that the plaintiff and defendant consent to this judgment and there have been no written objections to the proposed settlement [*or as the case may be*],

AND without any admission of liability on the part of the defendant, having denied liability,

AND ON BEING ADVISED that the plaintiff and defendant have entered into the Settlement Agreement to avoid the expense, inconvenience, and burden of litigation, to put to rest this controversy and to avoid the risks inherent in uncertain litigation,

Certification

1. THIS COURT ORDERS that this action be and is hereby certified as a class proceeding on behalf of the following class (hereinafter referred to as the "Class"):

All persons:

(a) who have been customers of Union Gas Limited (including its predecessor Centra Gas), and

(b) who paid one or more late payment penalties to Union Gas Limited (including its predecessor Centra Gas) at any time between April 1, 1981 and June 7, 2002.

2. THIS COURT ORDERS that, subject to further order of the Court, Laurie Walker be and hereby is appointed as the representative plaintiff on behalf of the Class and that Theall Group LLP, Lerners LPP and M. Paul Downs be and hereby are appointed as Class Counsel.

Common Issues

3. THIS COURT ORDERS that:

(a) the issue of the defendant's liability for damages arising from its collection of late payment penalties from the class members be a common issue for the Class; and

(b) the issue of the aggregate quantum of damages be a common issue for the Class.

Settlement Approval

4. THIS COURT ORDERS that the proposed settlement of this action set out in the Settlement Agreement, filed, is a fair, reasonable and prudent settlement of claims by the parties, is in the best interests of the Class and is hereby approved.

5. THIS COURT ORDERS that the following allocation of settlement funds is hereby approved:

Payment to the class	6,000,000
Class Counsel's costs and fees	2,750,000
GST on costs and fees	137,500
Disbursements inclusive of GST	200,000
Notice to class	140,000
Total	$9,227,500

6. THIS COURT ORDERS that any disbursements funded by the Class Proceedings Fund shall be repaid to the Class Proceedings Fund out of the $200,000 payment allocated to class counsel on account of disbursements inclusive of GST.

7. THIS COURT ORDERS that $__________ [*amount to be determined by the Court at the fairness hearing*] be deducted from class counsel's costs and fees as set out in paragraph 5, above, and paid to the plaintiff as compensation for serving as class representative.

8. THIS COURT ORDERS that nothing in this order, or in the settlement being implemented by this order, should be taken as constituting an admission of liability on the part of the defendant.

Cy Pres Distribution

9. THIS COURT ORDERS that the payment allocated to the Class in the amount of $6,000,000 be made as follows: (a) payment in the amount of $600,000 to the Class Proceedings Fund; and (b) payment in the amount of $5,400,000 by *cy pres* distribution in accordance with

the terms set out in paragraph 10 below, to Winter Warmth program(s) operating in Union Gas' service areas.

Schedule for Payment of Settlement Funds

10. THIS COURT ORDERS that:

(a) within 10 days after the later of (i) 31 days after the date of this order, or (ii) the disposition of any appeals from this order (hereinafter referred to as the "Date this Order becomes Final"), the defendant pay the sum of $600,000 to the Class Proceedings Fund, operated by the Law Foundation of Ontario;

(b) within 10 days after the Date this Order becomes Final, the defendant pay the sum of $1,800,000 to the organization that will administer the program (the "Administrator"), [to be determined by the parties, acting reasonably and specified in the final draft judgment to be filed prior to the Fairness Hearing], and on or before the first anniversary of the Date this Order becomes Final, the defendant shall pay an additional $1,800,000 to the Administrator, and on or before the second anniversary of the Date this Order becomes Final, the defendant shall pay an additional $1,800,000 to Administrator provided that if the costs of notice to the class paid by the defendant exceeds $140,000 then the defendant may deduct such excess from the payments to the Administrator, and it being understood that the payments are inclusive of the costs paid to the Administrator for the costs of administration, pursuant to paragraph 11(c) **check**; and

(c) within 10 days after the Date this Order becomes Final, the defendant pay the sum of $3,087,500 to Lerners LLP in trust to be applied to legal fees, disbursements, GST and the class representative's compensation, as more particularly described in paragraph 5 above.

Implementation of *Cy Pres* Distribution

[The parties agree that this paragraph 11 will need to be adapted, in a manner that is consistent with the Settlement Agreement and in consultation with the Administrator, once the Administrator is identified. A revised paragraph 11 will be filed prior to the Fairness Hearing.]

11. THIS COURT ORDERS that:

(a) the Administrator shall hold in trust and invest the amounts received under paragraph 10(b) (hereinafter the "Union Gas Endowment") and may commingle the funds with other monies held by it for the purpose of investment provided that separate accounting records shall be maintained of all dealing with the funds;

(b) with respect to investment standards, s. 27 of the *Trustee Act* R.S.O. 1990 c. T23 as amended shall apply *mutatis mutandis*;

(c) for the first three programming years, on an annual basis, the Administrator may deduct reasonable costs of administration from the Union Gas Endowment and/or the income it generates. In the first programming year, the costs of administration shall be fixed at $50,000. At the end of each programming year, the Administrator shall submit a report of actual costs incurred to administer the program to Union Gas. The cost of administration for the subsequent year may be adjusted in consultation with Union Gas based on actual costs incurred in the previous year, provided the costs of administration may not be adjusted by more than +/-5% in a year. If, at the end of the first three years, there are surplus funds in the Union Gas Endowment (per paragraph 11(f) below), then the future costs of administration to be deducted from the Union Gas Endowment shall be arrived at by mutual agreement between the Administrator and Union Gas;

(d) the Administrator shall determine the amounts to be distributed to the agencies participating in the Winter Warmth Fund program for the year, having regard to (i) the needs of the Winter Warmth Fund program in the year, and (ii) the amount of funds in the Union Gas Endowment;

(e) the Administrator shall consult with Union Gas when it determines the allocations under paragraph 11(d);

(f) at the end of a programming year, if the amount in the Union Gas Endowment, including any accrued income, exceeds the aggregate distributions to the agencies for the Winter Warmth Fund program during the year, then such surplus shall continue to be held in trust by the Administrator and distributed for Winter Warmth programs in the subsequent year(s);

(g) in the event the Winter Warmth Fund program ceases operation in Union Gas' service area, the Union Gas Endowment and any accrued income shall be distributed to the regional United Way organizations in proportions to be determined by the Administrator, after consultation with Union Gas and the regional United Way organizations, depending on need, to be used for such charitable purposes as the regional United Way organizations see fit.

Notice

12. THIS COURT ORDERS that the Class Members shall be given notice of the certification of the action as a class proceeding, the approval of the Settlement Agreement and the opt out procedures substantially in the form of the notice attached as Schedule "A" to this judgment (the "Notice") and substantially in the following manner:

(a) by the defendant publishing the Notice in each of the following publications, as soon as possible after the Date this Order becomes Final:

(i) The Globe and Mail;

(ii) Burlington Post;

(iii) Chatham Daily News;

(iv) Hamilton Spectator;

(v) Kingston Whig-Standard;

(vi) Kitchener-Waterloo Record;

(vii) London Free Press;

(viii) North Bay Nugget;

(ix) Sarnia - The Observer;

(x) Sault Ste. Marie Star;

(xi) Sudbury - The Star;

(xii) Thunder Bay - The Chronicle Journal; and

(xiii) Windsor Star; and

(b) by the defendant placing a copy of the Notice on its website at www.uniongas.com/latepaymentpenaltysettlement.com until the expiry of the 30th day after the date the first Notice is published under paragraph 12(a), after which time it may be removed from the website.

Opting Out

13. THIS COURT ORDERS that a Class Member may opt out of the class proceeding and the settlement by delivering to Theall Group LLP the Opt Out Coupon contained in Schedule "A" or some other legible, written, signed request to opt out containing substantially the same information as the Opt Out Coupon on or before the expiry of the 30th day after the date the first Notice is published under paragraph 12 above.

14. THIS COURT ORDERS that a Class Member may not opt out after the expiry of the 30th day after the date the first Notice is published under paragraph 12 above.

15. THIS COURT ORDERS that Theall Group LLP serve on the defendant and file with the Court, within 44 days after the date the first Notice is published under paragraph 12 above, an affidavit exhibiting a list of persons who have opted out of the class proceeding and the settlement.

16. THIS COURT ORDERS AND DECLARES that this judgment, including the Settlement Agreement, are binding upon each Class Member who does not opt out of the action in accordance with the terms of this judgment.

Release of Claims

17. THIS COURT ORDERS that the defendant and its parent and affiliates, including their present and former officers, directors, agents, servants, employees, successors, heirs, executors, estate trustees, administrators and assigns, are hereby irrevocably, fully and finally released from all claims made in this proceeding. In the event that any of the plaintiff, Class Members who do not opt out as provided in paragraph 13 and/or Class Counsel should hereafter make any claim or demand or commence or threaten to commence any action, proceeding or make any claim against the defendant for or by reason of any cause,

matter or thing that was raised or could have been raised in this proceeding, this Judgment may be raised as an estoppel and complete bar to any such claim, demand, action, proceeding or complaint.

Jurisdiction of the Court

18. THIS COURT ORDERS that the Honourable Mr. Justice Cumming, or his successor as case management judge for this action, shall continue to oversee the case, and may, if need be, amend this order or make any case management order permitted by the *Class Proceedings Act* or the rules of court. However, the Court does not have jurisdiction to revive any claims released under paragraph 17 and may not require the defendant to pay any additional moneys or incur any additional expenses with the exception that the Court has a discretion to award costs relating to future motions or proceedings in this action which are presently unforeseen.

Dismissal of the Action

19. THIS COURT ORDERS that the action is dismissed.

Schedule A
(to draft judgment)

NOTICE

UNION GAS CLASS ACTION

NOTICE OF COURT APPROVAL OF CLASS ACTION SETTLEMENT AGREEMENT

PLEASE READ THIS NOTICE CAREFULLY AS IT MAY AFFECT YOUR LEGAL RIGHTS.

TO CLASS MEMBERS:	This notice is to all persons: (a) who have been customers of Union Gas Limited (including its predecessor, Centra Gas) ("Union Gas") and; (b) who paid one or more late payment penalties to Union Gas Limited (including its predecessor Centra Gas) at any time between April 1, 1981 and June 7, 2002 ("Class Members").
1 **SUMMARY OF THE SETTLEMENT AGREEMENT**	The Ontario Superior Court of Justice has approved a settlement in a class proceeding lawsuit initiated in Ontario in which damages were claimed arising from allegedly excessive late payment penalties collected by Union Gas in the period April 1, 1981 to June 7, 2002. Without admitting liability, a sum of $9,227,500 will be paid by Union Gas to settle the claims of all Class Members. After the deduction of notice costs of $140,000 and Class Counsel's fees, disbursements and GST in the amount of $3,087,500 and payment to the Class Proceedings Fund of $600,000, a balance of $5,400,000 will be used for the indirect benefit of Class Members.

2	**DISTRIBUTION PROTOCOL**	Settlement payments will be paid out in accordance with the Settlement Agreement. The money will be administered by [*insert name of Administrator*], to be used in the Union Gas service area for Winter Warmth program(s). Any annual surplus will be used for Winter Warmth programs in subsequent years. A copy of the Settlement Agreement is available on the defendant's website at www.uniongas.com/latepaymentpenaltysettlement
3	***OPTING OUT***	All persons who come within the class definition will automatically be included in the class unless they exclude themselves ("Opt-Out"). To Opt-out, a Class Member will have to complete, sign and return an Opt-Out Coupon, set out below, or some other written legible, signed request containing substantially the same information by [insert date 30 days after first notice, 2009] If the Class Member's written request to opt out is not received by that date the Class Member will remain a member of the class. Because of the deadline, if you wish to opt out you must act without delay.
4	**LEGAL FEES**	The Ontario Superior Court of Justice has awarded legal fees, expenses and applicable taxes to Class Counsel in the total amount of $3,087,500. Class Counsel were retained on a contingent basis such that they were only to be paid if they were successful in the litigation. Class Counsel and the Class Proceedings Fund were responsible for funding all disbursements incurred in pursuing this litigation. The fees, expenses, and taxes approved by the Court will be deducted from the settlement fund.

5	**CLASS COUNSEL**	For all inquiries relating to the Settlement Agreement, please contact Class Counsel at: Theall Group, LLP Suite 1400 4 King Street West Toronto, Ontario M5H 1B6 Attention: D. Fong Tel. (416) 304-0115, ext. 240 Fax (416) 304-1395 Email: dfong@theallgroup.com
6	**INTERPRETATI ON**	If there is a conflict between the provisions of this Notice and the Settlement Agreement, the terms of the Settlement Agreement shall prevail.

PUBLICATION OF THIS NOTICE HAS BEEN AUTHORIZED BY THE ONTARIO SUPERIOR COURT OF JUSTICE

Opt-Out Form

THIS IS NOT A REGISTRATION FORM OR A CLAIM FORM.
IT EXCLUDES YOU FROM THE SETTLEMENT CLASS.

Name Class Member:				
	Mr. / Mrs. / Miss / Ms.			
Current Address:				
	Apt/No/Street	City	Province	Postal Code
Telephone:	Home: ( )		Work: ( )	
	Cell: ( )		Fax: ( )	
Date of Birth				
SIN #				

I am signing this Form to **EXCLUDE** myself from *Walker v. Union Gas Limited* action and Union Gas Settlement Agreement.

DATE: ______/______/______
Year Mo. Day

____
Signature of Class Member

ALL OPT OUT FORMS MUST BE RECEIVED NOT LATER THAN [INSERT DATE 30

DAYS AFTER FIRST NOTICE] 2009 BY:

Theall Group, *LLP*
Suite 1400
4 King Street West
Toronto, Ontario M5H 1B6

Attention: D. Fong
Fax (416) 304-1395
Email: dfong@theallgroup.com

LAURIE WALKER - and - **UNION GAS LIMITED**

PLAINTIFF DEFENDANT

Court File No. 43320

ONTARIO
SUPERIOR COURT OF JUSTICE
Proceeding commenced at LONDON

MINUTES OF SETTLEMENT

THEALL GROUP LLP
Barristers & Solicitors
4 King Street West
Suite 1410
Toronto, Ontario
M5H 1B6

Michael McGowan
Law Society No. 19612J

Tel: (416) 363-2239
Fax: (416) 304-1395

Co-Counsel for the plaintiff

Court File No. 43320

ONTARIO
SUPERIOR COURT OF JUSTICE

BETWEEN:

LAURIE WALKER

Plaintiff

- and -

UNION GAS LIMITED

Defendant

Proceeding under the *Class Proceedings Act, 1992*

Addendum to Minutes of Settlement

The plaintiff and the defendant, by their solicitors, hereby agree to amend the Minutes of Settlement herein dated December 16, 2008 as follows:

Designation of Trustee

1. In paragraph 10(b) of Schedule B to the Minutes of Settlement herein dated December 16, 2008 the words:

> " . . . pay the sum of $1,800,000 to the organization that will administer the program (the "Administrator"), [to be determined by the parties, acting reasonably and specified in the final draft judgment to be filed prior to the Fairness Hearing], and on or before . . ."

are deleted and replaced with the following words:

> " . . . pay the sum of $1,800,000 to the United Way of Chatham-Kent (the "Trustee"), and on or before . . ."

9226064.3
11229-2038

2. All references to "Administrator" in Schedule B to the Minutes of Settlement dated December 16, 2008 be replaced with the word "Trustee".

Distribution Procedures

3. Paragraph 11 of Schedule B to the Minutes of Settlement herein dated December 16, 2008 is hereby deleted and replaced with the following paragraph:

> **Implementation of *Cy Pres* Distribution**
> 11. THIS COURT ORDERS that:
>
> (a) Union Gas and the United Way of Chatham-Kent shall enter into a Trust Agreement substantially in the form attached as Appendix A to this judgment, and, as soon as possible, shall file an affidavit with the court attaching an executed copy of the Trust Agreement as an Exhibit.
>
> (b) the terms contained in the Trust Agreement are hereby approved by the court, and the Trustee shall distribute the settlement funds as stated in the Trust Agreement.

4. In paragraph 10(b) of Schedule B to the Minutes of Settlement herein dated December 16, 2008 the words:

> " . . . pursuant to paragraph 11(c) **check**; and"

are deleted and replaced with the following words:

> " . . . pursuant to the Trust Agreement referred to in paragraph 11; and"

Form of Trust Agreement

5. The Trust Agreement referred to in paragraph 3 of this Addendum shall be substantially in the form attached hereto as Appendix A.

Execution in Counterpart

6. This Addendum may be executed in counterpart.

Dated at Toronto this 22nd day of January 2009.

Torys LLP
per

Lisa Kerr for Torys LLP
____
Co-Counsel for the defendant

Siskinds LLP
per

____
Co-Counsel for the defendant

Theall Group LLP
per

____
Co-counsel for the Plaintiff

Lerners LLP
per

____
Co-counsel for the Plaintiff

M. Paul Downs, Barrister and Solicitor
per

____
Co-counsel for the Plaintiff

Appendix "A"

THIS AGREEMENT is made this ■ day of ■, 2009 between **UNION GAS LIMITED** (the "Settlor") and **UNITED WAY OF CHATHAM-KENT** (the "Trustee").

WHEREAS:

A. The Settlor entered into Minutes of Settlement dated December 16, 2008 with Laurie Walker (the "Plaintiff") in connection with an action brought by the Plaintiff, as representative plaintiff, under the *Class Proceedings Act, 1992* (the "Settlement").

B. On January ■, 2009, The Honourable Mr. Justice Cumming of the Ontario Superior Court of Justice made an order approving the terms of the Settlement (the "Order").

C. The Order contemplates that the Settlor, as part of its obligations under the Settlement, will establish and fund a trust to support Winter Warmth Fund Programs (as herein defined) operating in the Settlor's Service Areas (as herein defined).

D. This Agreement sets out the funding and other obligations of the Settlor in establishing the trust and the obligations and powers of the Trustee in administering the trust.

NOW THEREFORE in consideration of the premises herein contained, the Settlor and the Trustee agree as follows:

1. **<u>Definitions</u>**

In this Agreement, the following capitalized terms shall have the following meanings:

(a) "First Programming Year" means the Programming Year which commences on November 1, 2008;

(b) "Programming Year" means the period which runs from November 1 of one year until October 31 of the following year;

(c) "Qualifying Agency" means a registered Canadian charity which operates a Winter Warmth Fund Program in the Settlor's Service Areas and "Qualifying Agencies" shall have a corresponding meaning;

(d) "Remainder Programming Year" means all Programming Years after the Third Programming Year and "Remainder Programming Years" shall have a corresponding meaning;

(e) "Second Programming Year" means the Programming Year which commences on November 1, 2009;

(f) "Third Programming Year" means the Programming Year which commences on November 1, 2010;

(g) "Settlor's Service Areas" means those areas of the Province of Ontario in respect of which, at a particular time, the Settlor has a franchise agreement made under the *Municipal Franchises Act* (Ontario);

(h) "Trust" means the trust to be created under this Agreement;

(i) "Trust Fund" means:

  (i) the Payments received by the Trustee in accordance with paragraph 2 of this Agreement,

  (ii) all income which may be accumulated by the Trustee in accordance with the powers hereinafter contained, and

  (iii) all money, securities, property or assets substituted for or representing all or any part of the foregoing; and

(j) "Winter Warmth Fund Program" means a charitable program carried out by a Canadian registered charity for the purpose of providing financial assistance to low income families and individuals to enable them to pay their gas bills and "Winter Warmth Fund Programs" shall have a corresponding meaning.

2. **Settlor's Funding Obligations**

The Settlor shall pay or cause to be paid to the Trustee the sums set out below (the "Payments") in the time periods specified:

Amount of Payment	Time of Payment
$1,800,000 **[as contemplated in the Draft Order, this initial Payment will be reduced to the extent to which the publication costs exceed $140,000.]**	within 10 days after **[insert the date on which the Order became final]**
$1,800,000	on or before the first anniversary of **[insert the date on which the Order became final]**
$1,800,000	on or before the second anniversary of **[insert the date on which the Order became final]**

3. **Declaration of Trust**

The Trustee agrees to hold the Trust Fund in trust for the charitable purposes set out in this Agreement.

4. **Trustee's Investments Powers**

The Trustee agrees to invest and reinvest the funds from time to time constituting the Trust Fund in accordance with the provisions of the *Trustee Act* (Ontario). The Trustee shall be permitted to commingle the Trust Fund with other funds under its administration solely for the purpose of investment. The Trustee acknowledges that in establishing an investment policy for the Trust Fund it must have particular regard for the anticipated liquidity requirements of the administration of the Trust.

5. **Other Administrative Powers of the Trustee**

Subject to the specific provisions, restrictions and limitations set forth in this Agreement, in addition to all other powers conferred upon it by the provisions hereof or by any statute or general rule of law, the Trustee shall have the power and authority:

(a) to exercise all rights incidental to the ownership of stocks, shares, bonds, or other securities, investments and properties held as part of the Trust Fund, including the right to vote upon and issue proxies respecting any shares or securities held in the Trust Fund, the right to sell or exercise any subscription rights and to use trust monies for that purpose, the right to consent to and join in any plan, reorganization, readjustment, amalgamation or consolidation with respect to any corporation, stocks, shares, bonds or other securities at any time forming part of the Trust Fund;

(b) to register securities forming part of the Trust Fund in the name of the Trustee or its nominee;

(c) to sell, transfer, assign, exchange, convey, or otherwise dispose of any of the property of the Trust Fund in any manner the Trustee may deem appropriate at any price and terms considered desirable by the Trustee;

(d) to make or file, either alone or jointly with any other person, any elections, designations, determinations or returns as the Trustee in its discretion determines to be in the best interest of the Trust Fund;

(e) to employ or retain such counsel, accountants or other professional or financial experts or advisors as the Trustee in its discretion considers advisable for the purpose of discharging its duties hereunder; and

(f) to appoint any bank or trust company to act as the Trustee's banker for purposes of this Agreement.

6. **Distribution of Income and Capital to Qualifying Agencies**

The Trustee, following consultation with the Settlor, shall determine in each Programming Year the amounts to be distributed from the capital of the Trust Fund and the income generated thereby to Qualifying Agencies in support of their Winter Warmth Fund Programs for such year, having regard to the needs of Winter Warmth Fund Programs in the Settlor's Service Areas in such year and the amount of available capital in the Trust Fund and income generated thereby. Distributions from the Trust Fund to Qualifying Agencies shall be made first out of available income and then capital.

7. **Power to Accumulate Income**

Any income generated by the Trust Fund which is not distributed in accordance with paragraph 6 of this Agreement or used to pay administrative expenses in accordance with paragraph 9 of this Agreement shall be accumulated and from time to time added to the capital of the Trust Fund and dealt with as part thereof, provided that if the accumulation of such income would infringe any law denying the right to accumulate further such income, such income shall be disbursed in accordance with the trusts of paragraph 6 hereof.

8. **Termination of Trust**

The Trust shall terminate in the year in which all capital and income of the Trust Fund has been distributed.

9. **Costs of Administering the Trust and Trustee Remuneration**

The Trustee shall be entitled to receive the sum of $50,000 for the First Programming Year to cover its costs of administering the Trust and as remuneration for serving as Trustee. At the end of the First Programming Year and in each subsequent Programming Year, the Trustee shall submit a report to the Settlor of the actual costs incurred to administer the Trust Fund for the previous Programming Year. The amount to be paid to the Trustee for the costs of administration and as remuneration for serving as Trustee for the Second Programming Year and the Third Programming Year may be adjusted in consultation with the Settlor based on the actual costs of administration incurred in the previous Programming Year, provided that the amount to be paid to the Trustee for the costs of administration and as remuneration for serving as Trustee may not be adjusted upwards or downwards by more than 5% for any Programming Year. If at the end of the Third Programming Year, and for any subsequent years in which there are funds remaining in the Trust Fund, the Trustee may deduct the same amount as in the Third Programming Year, adjusted upwards or downwards by 5%, for the costs of administration and as remuneration for serving as Trustee, after consulting with the Settlor. In the event that an agreement can not be reached by the parties' representatives with respect to adjustments to the

Trustee's costs and remuneration, then a principal of the Trustee and a principal of the Settlor shall meet to resolve the matter, acting reasonably and in good faith. Amounts to be paid to the Trustee for costs of administration and remuneration shall be payable first out of available income and then the capital of the Trust Fund. For greater certainty, the amounts payable to the Trustee as remuneration under this paragraph are in lieu of any remuneration that would otherwise be awarded to the Trustee by a court of competent jurisdiction.

Should the Trust Fund balance drop below $500,000 at the conclusion of any Remainder Programming Year, the Trustee may deduct an amount representing 10% of said balance for each year of the remainder of the Trust for the costs of administration and as remuneration for serving as Trustee.

10. **Alternative Distribution of Trust Fund**

If at any time before the Trust Fund has been fully distributed there are no Winter Warmth Fund Programs in operation in the Settlor's Service Areas, the Trust Fund and any undistributed income shall be distributed to the regional United Way organizations in the Settlor's Service Areas in such shares and proportions as are determined by the Trustee, following consultation with the Settlor and the various regional United Way organizations, taking into account the need of such organizations, to be used for such charitable purposes as the regional United Way organizations see fit.

11. **No Benefit to Settlor**

Once a Payment has been made to the Trustee, the payor shall not have any right to have the amount of such Payment or any part thereof or income therefrom returned or paid to or for its benefit in any circumstance whatsoever.

12. **Irrevocable Trust**

The Trust is intended and is hereby declared by the Settlor to be irrevocable.

13. **Settlor's Service Areas**

For all purposes of this Agreement, the Trustee may rely on the statement of the Settlor from time to time as to the extent and boundaries of the Settlor's Service Areas.

14. **Trustee Liability Limited**

The Trustee shall not be responsible for any loss or damage suffered by the Trust Fund, howsoever caused or arising, save for any such loss or damage which may be caused by the gross negligence or wilful default of the Trustee.

15. **Enurement**

This Agreement shall enure to the benefit of and be binding upon the parties hereto and their respective successors and future administrators.

16. **Interpretation Not Affected by Headings, etc.**

The division of this Agreement into paragraphs and sub-paragraphs and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Agreement.

17. **Jurisdiction of the Court**

This Agreement is subject to the jurisdiction of the Superior Court of Justice of Ontario and its terms may be varied by Court Order.

18. **Governing Law**

This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario.

UNION GAS LIMITED

By: ____________________________
Name:
Title:

By: ____________________________
Name:
Title:

UNITED WAY OF CHATHAM-KENT

By: ____________________________
Name:
Title:

By: ____________________________
Name:
Title:

UNION GAS LIMITED

Answer to Interrogatory from
School Energy Coalition ("SEC")

Ref: A/1/3

Please provide a calculation of the cost to an M1 customer with a usage of 40,000 cubic meters of the shift of $4.239 million of DSM costs to M1 in 2009. Please provide a breakdown of the amount of that incremental spending between residential, commercial and industrial programs.

Response:

An M1 customer with an annual usage of 40,000 m^3 will consume, based on an average commercial profile, 30,560 m^3 over the proposed disposition period of October 1, 2010 to March 31, 2011.

The calculation of this M1 customer's impact is as follows:

M1 DSM amount for 2009 deferral disposition	$4.239 million
Forecast M1 delivery volume (Oct. 1, 2010 to Mar. 31, 2011):	2,224,453 10^3m^3
Unit M1 rate for DSM deferral clearing:	0.1906 cents/m^3
Cost to a customer using 30,560 m^3 (as detailed above)	$58.24

	2009 Unaudited Volumes (10^3 m^3)	% of Total for M1 Rates Class (%)	Allocation of Incremental Spend ($ millions)
Residential	8,301	52.0	$2.204
Commercial	7,044	44.2	1.874
Industrial	606	3.8	0.161
Total M1 Rate Class	15,951	100.0	$4.239

UNION GAS LIMITED

Answer to Interrogatory from
School Energy Coalition ("SEC")

Ref: A/1/5

Please provide any information available to the Applicant on why the Rate 01 and Rate 10 average use remain higher than expected, and why the M1/M2 average use is now lower than expected, in each case including what customer groups (such as classes, sub-classes, or end-user categories) are causing these variations.

Response:

The Rate 01 and Rate 10 average energy consumption per customer is higher than expected over the period 2008 to 2010 as a result of approximately 700 Rate 10 customers who migrated to Rate 01 in late 2007 because they no longer qualified for Rate 10. The Rate 10 customers who migrated had comparatively low consumption for Rate 10 customers, but once in the new Rate 01 class had comparatively high consumption for the R01 class. The loss of low consumption Rate 10 customers raised the average consumption of the remaining customer class. Likewise, adding 700 higher volume customers into Rate 01 raised the average consumption of this rate class.

The M1/M2 average consumption is declining faster than expected because:

- The industrial customer average consumption is declining; prior to 2007 the trend in the average use was a slight increase over time. From 2007 to 2009 total throughput volumes for industrial Rate M1/M2 customers have declined by approximately 37 million cubic metres or by approximately 8 percent. Competition from global manufacturing and industrial restructuring are the suspected root causes.
- The production of the commercial tobacco industry is declining and thus the crop drying energy demand has decreased.

Residential customer energy efficiency continues to drive consumption lower.

UNION GAS LIMITED

Answer to Interrogatory from
School Energy Coalition ("SEC")

Ref: A/2/A/4

Please provide a breakdown of the long-term debt making up the 7.22% combined rate and the $150.719 million total interest cost. If any of that debt is affiliate debt, please provide full details.

Response:

Below is a breakdown of the long term debt making up the 7.22% combined rate and the $150.719 million total interest cost. None of the debt is affiliate.

Long-term Debt

($millions)		2009	2008
Sinking fund debentures			
10.75%	Senior debentures, redeemed July 2009	–	24
11.55%	1988 Series II debentures, due October 15, 2010	37	41
Medium-term note debentures			
7.20%	Series 2, due June 1, 2010	185	185
6.65%	Series 3, due May 4, 2011	250	250
4.64%	Series 5, due June 30, 2016	200	200
5.35%	Series 6, due April 27, 2018	200	200
4.85%	Series 7, due April 25, 2022	125	125
5.46%	Series 6, due September 11, 2036	165	165
6.05%	Series 7, due September 2, 2038	300	300
Other debentures			
7.90%	1994 Series debentures, due February 24, 2014	150	150
11.50%	1990 Series debentures, due August 28, 2015	150	150
9.70%	1992 Series II debentures, due November 6, 2017	125	125
8.75%	1993 Series debentures, due August 3, 2018	125	125
8.65%	Senior debentures, due October 19, 2018	75	75
8.65%	1995 Series debentures, due November 10, 2025	125	125
		2,212	2,240

UNION GAS LIMITED

Answer to Interrogatory from
School Energy Coalition ("SEC")

Ref: A/2/A/16/page 3

Please provide separate continuities for the three years in question for gross assets each year, for accumulated depreciation each year, and for net book value each year, with all additions and retirements noted.

Response:

Please see the responses at Exhibit B3.39 and Exhibit B3.40.

UNION GAS LIMITED

Answer to Interrogatory from
School Energy Coalition ("SEC")

Ref: A/2/A/17

Please describe the main reasons why capital spending has dropped 36% since 2007, and 24% since 2008.

Response:

The schedule of Capital Expenditure by Function provided in the evidence in Exhibit A, Tab 2, Appendix A, Schedule 17 reflects the capital expenditures for the regulated operation only. The chart below includes the investment in the unregulated operation. Expansion of Union's facilities continued through 2008. The combination of the economic downturn in 2009 and the flow changes related to new supply development has resulted in a delay in the expansion of Union's facilities.

UNION GAS LIMITED
Capital Expenditure by Function
Includes IDC and Overheads
Year Ended December 31

Line No.	Particulars ($000's)	Board Approved 2007	Actual 2008	Actual 2009
		(a)	(b)	(c)
	Regulated			
1	Storage	10,024	6,577	3,441
2	Transmission	139,121	84,334	42,716
3	Distribution	89,565	113,112	95,525
4	General	49,943	30,724	22,838
5	Other	59,312	61,105	59,457
6	Subtotal - Regulated	347,965	295,851	223,977
7	Rate Base Reduction via ADR	(35,000)		
8		312,965		
	Unregulated			
9	Storage		90,323	16,670
10	General		197	785
11	Other		161	137
12	Subtotal - Unregulated		90,680	17,591
13	Total	347,965	386,532	241,568

UNION GAS LIMITED

Answer to Interrogatory from
School Energy Coalition ("SEC")

Ref: A/3/page 7

Please explain why the six month recovery/payment period proposed is appropriate.

Response:

The selection of the proposed six month period for the General Service deferral disposition is consistent with order of the Board to dispose of 2008 deferral balances in EB-2009-0052.

UNION GAS LIMITED

Answer to Interrogatory from
School Energy Coalition ("SEC")

Ref: A/3/1/ page 1

Please provide a calculation of the cost to an M1 customer with usage of 40,000 cubic meters of the amount of $4.419 million for Late Payment Penalty Litigation. Please provide a breakdown of all late payment fees collected in 2009 as between M1 residential, commercial and industrial customers.

Response:

An M1 customer with an annual usage of 40,000 m^3 will consume, based on an average commercial profile, 30,560 m^3 over the proposed disposition period of October 1, 2010 to March 31, 2011.

The calculation of this M1 customer's impact is as follows:

M1 LPP Litigation amount for 2009 deferral disposition	$4.419 million
Forecast M1 delivery volume (Oct. 1, 2010 to Mar. 31, 2011):	2,224,453 10^3m^3
Unit M1 rate for LPP Litigation deferral clearing:	0.1987 cents/m^3
Cost to a customer using 30,560 m^3 (as detailed above)	$60.71

LPP payment fees collected in 2009 from all M1 customers is shown the table below:

Residential	$4,445,808
Industrial	$91,131
Commercial	$943,178

UNION GAS LIMITED

Answer to Interrogatory from
School Energy Coalition ("SEC")

Ref: A/4

With respect to the Storage Allocation exhibit:

a) Page 1. Please provide a more detailed description of the specific approvals sought. For example,

   i. Is the Applicant seeking approval for a specific set of storage allocation rules, or the general concept they are using for this allocation?

   ii. Is the Applicant seeking approval for an allocation specific to earnings sharing calculations, or one that would be applicable to future cost of service applications as well?

   iii. Is the Applicant proposing that, if their current approach is approved, no changes are allowed, whether initiated by the utility or by other stakeholders, for a period of time, or unless there are material changes in circumstances, or on some other basis? What other conditions to or restrictions on the finality of the approval are being proposed?

   iv. What other material implications does the Applicant expect if there is a decision by the Board to give the approval sought and have it applicable to "future proceedings"?

b) Page 4. Please advise the extent, if any, to which the amount of UFG in a given year is expected to vary based on volumes of throughput, volumes of storage, volumes of transportation, numbers of transactions in and out of storage, or any other material factor. Please provide a summary of any studies or data in the possession of the Applicant analyzing the causes of UFG.

c) Page 5. Please describe the accounting treatment used to account for the $6.173 million of UFG/compressor fuel "supplied in kind by customers who have contracted for unregulated storage services".

d) Page 13. Please provide plant continuity schedules for 2007 through 2009 for unregulated storage assets.

e) Page 13. Please advise the percentage of storage assets to total plant (excluding CWIP, ARO and General Plant) on each of December 31, 2005 and December 31,

2006. Please advise the O&M Storage Support Allocation % in each of 2005 and 2006.

f) Page 17. Please confirm that the total of the column "Total O&M 2009" is $334.8 million, and the resulting composite allocation percentage is 3% for 2009.

g) Page 19. Please confirm that the negative salvage values discussed are disposal and/or site remediation costs. Please explain in more detail why CGAAP does not allow those amounts to be included in the cost of the fixed assets for amortization purposes.

Response:

a)

i) Union is seeking the Board's approval for the approach used to allocate costs to the unregulated storage operations. In the NGEIR decision the Board found that the approved 2007 cost allocation methodology was adequate for the purposes of separating the unregulated storage assets and related O&M in the financial records. Union has used this methodology to allocate existing assets at December 31, 2007 to the unregulated storage operations. The cost of replacement of these assets since 2007 has been allocated in same proportion as the existing assets. The cost of new assets has been allocated entirely to unregulated storage operations.

ii) The approval of the unregulated cost allocation would be applicable to future cost of service applications.

iii) In future cost of service rate applications Union will provide for approval the cost of service related to the utility operations only. Changes in future costs will be limited to utility operations.

iv) None.

b) Actual UFG is the difference between the gas measured into and out of Union's system and is expected to vary with total throughput including the activity in and out of storage. The allocation of UFG on a volumetric basis is the method used by Union and approved by the Board for at least the past 20 years. Union has no studies analyzing the causes of UFG.

In EBRO 499, Union filed a report prepared by Harrington & Hrehor energy Consulting Group, examining alternative methods to allocate UGF separately to storage, Dawn Trafalgar transmission, other transmission and distribution functions. The consultant's report recommended no change to Union's existing allocation method for UFG. The Board agreed with Union and did not direct any change to the approved UFG allocation method for the purposes of setting 1999 rates. The Board did, however, direct Union to consider an alternative method for allocating UFG in light of emissions data and file a report at its next rate proceeding.

In RP-1999-0017, Union responded to the Board's directive, filing a position paper on the subject, prepared by Radian International. The Radian paper found that the emissions data had no bearing on the conclusions reached in the EBRO 499 study.

c) The $6.173 million of UFG/compressor fuel supplied by customers is recorded as an offset to cost of gas expense based on volumes supplied priced at Union's approved WACOG.

d) The plant continuity for 2008 and 2009 is in the prefiled evidence at Exhibit A Tab 4 Schedules 4 & 5 were labelled as "utility" incorrectly. The schedules were corrected in Union's corrected evidence filed on June 25, 2010.

e)

Ratio of Storage to Total Plant – 2005

Total Plant (Dec 31, 2005 - excluding WIP, ARO, and General Plant)	4,690,354,424
Total Storage (Dec 31, 2005 - excluding WIP, ARO and General Plant))	584,274,328
% Storage to Total Plant	12.46%

Ratio of Storage to Total Plant – 2006

Total Plant (Dec 31, 2006 - excluding WIP, ARO, and General Plant)	5,004,619,772
Total Storage (Dec 31, 2006 - excluding WIP, ARO and General Plant))	639,423,492
% Storage to Total Plant	12.78%

And for comparison, 2007 using the same methodology

Ratio of Storage to Total Plant – 2007

Total Plant (Dec 31, 2007 - excluding WIP, ARO, and General Plant)	5,198,765,878
Total Storage (Dec 31, 2007 - excluding WIP, ARO and General Plant))	646,449,204
% Storage to Total Plant	12.43%

The O&M Storage Support Allocation percentage is only relevant to the Unregulated operations. This percentage cannot be calculated for 2005 or 2006 as it is defined as the Unregulated Storage O&M to Total Operational O&M.

f) Confirmed. The total O&M is $334.8 million for 2009, not the $252.0 million shown in the table, and the resulting composite rate is 3%.

g) Confirmed. The negative values discussed are disposal and / or site remediation cost.

Under Canadian Generally Accepted Accounting Principles (GAAP), the only amounts that can be recognized in the financial statements are those that meet the definition of an Asset Retirement Obligation.

CICA Handbook section 3110 provides the following definition.

"An Asset Retirement Obligation is a legal obligation associated with the retirement of a tangible long-lived asset that an entity is required to settle as a result of an existing or enacted law, statute, ordinance or written or oral contract or by legal construction of a contract under the doctrine of promissory estoppels."

Negative salvage amounts included in our depreciation rates are based on the costs incurred historically to remove the assets from service. These rates include both legal and non legal asset retirement costs.

For the unregulated assets, the negative salvage amount was removed from the depreciation rate and if a legal obligation exists, the corresponding Asset Retirement Obligation is reported.

UNION GAS LIMITED

Answer to Interrogatory from
Vulnerable Energy Consumers Coalition ("VECC")

Ref: Exhibit A, Tab 1, page 8, Table 2

Please expand this table to show the breakdown between Short term and Long term in 2008 similar to what has been provided for 2009.

Response:

Please see the responses at Exhibit B1.01 and Exhibit B1.02.

UNION GAS LIMITED

Answer to Interrogatory from
Vulnerable Energy Consumers Coalition ("VECC")

Ref: Exhibit A, Tab 1, page 8, Table 2

Please provide explanations for all significant variances between 2008 and 2009 revenue and cost items in the expanded table requested in the previous interrogatory.

Response:

Revenue

The $24.866 million increase in revenue is due to an increase in the High Deliverability Storage and new services of $14.444 million, an increase in short-term storage services of $6.554 million and an increase in the amount of space sold long-term and higher prices on contract renewal.

Costs

Demand related costs are up $19.019 million in 2009 which reflects a full year of costs related to the 2008 capacity additions and a half-year of the 2009 additional capacity. Commodity costs are down $1.586 million as a result of decreased gas costs.

UNION GAS LIMITED

Answer to Interrogatory from
Vulnerable Energy Consumers Coalition ("VECC")

Ref: Exhibit A, Tab 1, page 12, Table 3 and Exhibit A, Tab 1, Pages 24 and 25

Preamble: The evidence indicates that Union spent $1.159M on its MT program and is claiming a $0.5M incentive based on its 2009 MT Scorecard.

Please provide Union's 2008 spending on MT and its 2008 MT incentive payment.

Response:

Union's 2008 spending on the Market Transformation Program was $1.097M and the 2008 Market Transformation Incentive payment was $0.5M.

UNION GAS LIMITED

Answer to Interrogatory from
Vulnerable Energy Consumers Coalition ("VECC")

Ref: Exhibit A, Tab 1, page 12, Table 3 and Exhibit A, Tab 1, Pages 24 and 25

Preamble: The evidence indicates that Union spent $1.159M on its MT program and is claiming a $0.5M incentive based on its 2009 MT Scorecard.

Please confirm that Union proposes to recover its actual 2009 MT spending of $1.159M from ratepayers in addition to the $0.5M 2009 MT incentive.

Response:

The 2009 MT spending is recovered through Union's 2009 DSM budget. The 2009 MT incentive is treated similar to a deferral balance and is being disposed of in this proceeding.

UNION GAS LIMITED

Answer to Interrogatory from
Vulnerable Energy Consumers Coalition ("VECC")

Ref: Exhibit A, Tab 1, page 12, Table 3 and Exhibit A, Tab 1, Pages 24 and 25

Preamble: The evidence indicates that Union spent $1.159M on its MT program and is claiming a $0.5M incentive based on its 2009 MT Scorecard.

Please provide Union's views as to whether the results referred to in the previous two interrogatories indicate that the 2008 and 2009 MT incentive schemes were overly generous.

Response:

Market Transformation scorecard metrics are established by Union, in consultation with the EAC, and filed with the Board for measurement within a balanced scorecard. Given the savings generated and the level of effort and budget that these classes of programs require to achieve the increasingly aggressive targets, Union believes the incentive level is appropriate.

UNION GAS LIMITED

Answer to Interrogatory from
Vulnerable Energy Consumers Coalition ("VECC")

Ref: Exhibit A, Tab 1, page 12, Table 3 and Exhibit A, Tab 1, Pages 24 and 25

Preamble: The evidence indicates that Union spent $1.159M on its MT program and is claiming a $0.5M incentive based on its 2009 MT Scorecard.

Please indicate whether any LRAM or SSM amounts that Union is seeking to recover in the current application are attributable to its 2009 MT spending and, if so, please provide the LRAM or SSM amounts attributed to the 2009 TM program.

Response:

No LRAM or SSM amounts are attributable to the 2009 Market Transformation program.

UNION GAS LIMITED

Answer to Interrogatory from
Vulnerable Energy Consumers Coalition ("VECC")

Ref: Exhibit A, Tab 1, page 12, Table 3 and Exhibit A, Tab 1, Pages 24 and 25

Preamble: The evidence indicates that Union spent $1.159M on its MT program and is claiming a $0.5M incentive based on its 2009 MT Scorecard.

Please indicate what 2009 TM incentive Union would be entitled to if the 2010 MT Scorecard (rather than the 2009 Scorecard) were used to assess the 2009 TM activities.

Response:

Union has not contemplated the hypothetical impacts of applying the 2009 actual results of the DWHR program to the 2010 scorecard metrics filed with the Board. The Market Transformation scorecard metrics vary from 2009 to 2010 which alters how the program is promoted and delivered. It would, therefore, be inappropriate to calculate the 2009 MT incentive using the 2010 MT Scorecard. In addition, Union's 2010 Market Transformation targets are directly tied to housing starts in Union's franchise area which will not be available until year end.

UNION GAS LIMITED

Answer to Interrogatory from
Vulnerable Energy Consumers Coalition ("VECC")

Ref: Exhibit A, Tab 1, page 21

The evidence states that *"Employee costs include incremental salaries and wages related to employees that are solely dedicated to the IFRS transition, training and travel costs related to the transition."* Does this mean that these employees and the incremental costs associated with their salaries, wages, training, and travel costs will be completely saved once the IFRS conversion is complete? Please explain.

Response:

The incremental salaries and wages related to employees that are solely dedicated to the IFRS transition, training and travel cost related to the transition will cease once the project has been completely implemented. Union anticipates incurring costs related to the implementation until early 2012 when the first annual report prepared under IFRS is issued and the project is considered fully implemented.

After the implementation date, Union may incur additional costs related to having to maintain an IFRS and a regulatory set of books.

UNION GAS LIMITED

Answer to Interrogatory from
Vulnerable Energy Consumers Coalition ("VECC")

Ref: Exhibit A, Tab 1, page 12, Table 3 and Exhibit A, Tab 1, Sch. 4

Has Union been denied recovery of any DSM amounts spent in the past? If so, please provide details.

Response:

Since the inception of the DSMVA account, Union has never been denied recovery of any DSM amounts spent.

UNION GAS LIMITED

Answer to Interrogatory from
Vulnerable Energy Consumers Coalition ("VECC")

Ref: Exhibit A, Tab 1, page 12, Table 3 and Exhibit A, Tab 1, Sch. 4

Please provide Union's total DSM spending claimed for 2008.

Response:

Union's total DSM spending claimed through the DSMVA for 2008 was $18.559M.

UNION GAS LIMITED

Answer to Interrogatory from
Vulnerable Energy Consumers Coalition ("VECC")

Ref: Exhibit A, Tab 1, page 12, Table 3 and Exhibit A, Tab 1, Sch. 4

Please confirm that the application is for the complete recovery of the 2009 total actual DSM spending of $22.038M, an associated SSM claim of $8.922M (representing 40.5% of the total recoverable DSM spending), and an LRAM claim holding Union harmless for saved volumes.

Response:

Confirmed.

UNION GAS LIMITED

Answer to Interrogatory from
Vulnerable Energy Consumers Coalition ("VECC")

Ref: Exhibit A, Tab 3, pages 5 and 6

Preamble: *"Union proposes to allocate the balance in the IFRS Conversion Costs Account (179-120) to rate classes in proportion to 2007 Board-approved EB-2005-0520, Exhibit G3, Tab 2, Schedule 2, Administrative & General O&M Expense, updated for the EB-2005-0520 Decision."*

Please list any other allocators considered for this balance and indicate why each was rejected in favour of the proposed allocator.

Response:

Union did not consider any other allocators for the balance in the IFRS Conversion Costs Account (179-120). The costs in this deferral account are primarily Finance and IT-related costs. In Union's Board-approved 2007 cost allocation study these types of costs are classified as Administrative & General Expenses. Allocating the IFRS conversion costs using Administrative & General O&M Expenses is consistent with how the IFRS conversion costs would be allocated for ratemaking purposes.

UNION GAS LIMITED

Answer to Interrogatory from
Vulnerable Energy Consumers Coalition ("VECC")

Ref: Exhibit A, Tab 1, page 2

Union's review indicated that *"the average historical impact of not truing-up the deferral disposition recovery was approximately $320,000 per year to the benefit of the ratepayer."* Please provide full details of Union's review.

Response:

Please see the response at Exhibit B2.01.

UNION GAS LIMITED

Answer to Interrogatory from
Vulnerable Energy Consumers Coalition ("VECC")

Ref: Exhibit A, Tab 4, page 24

Please explain why UFG is allocated to unregulated operations based on the ratio of actual unregulated storage volumes to Union's total actual storage and transportation volumes.

Response:

Unaccounted for gas is primarily attributable to measurement variance and is considered to be a commodity related cost. UFG is assigned to all volumes handled which includes gas into and out of storage as well as transportation volumes. The unregulated storage operations receive a proportionate allocation of UFG based on the unregulated storage activity.