unionGas
A Spectra Energy Company

July 15, 2010

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: EB-2010-0207 – Union Gas Limited - Dawn to Dawn TCPL Firm Rate

Please find attached Updated evidence plus an Addendum to the evidence of Union Gas Limited ("Union") specific to the above-noted proceeding. The Updated evidence and the Addendum describe a change in the estimated number of days of use of the proposed service by TransCanada and the impacts this change will have on Union's rate proposal.

Please contact me at (519) 436-5473 if you have any questions or wish to discuss this submission in more detail.

Yours truly,

[Original signed by]

Karen Hockin
Manager, Regulatory Initiatives

c.c.: EB-2010-0207 Intervenors
Mark Kitchen, Union Gas
Crawford Smith, Torys
Lawrie Gluck, Board Staff

UNION GAS LIMITED

DAWN TO DAWN-TCPL FIRM TRANSPORTATION RATE

PREFILED EVIDENCE

Union Gas Limited ("Union") filed its Dawn to Dawn-TCPL firm transportation rate evidence on June 11, 2010, seeking Board approval for a firm transportation rate, effective November 1, 2010.

In response to a request from TransCanada, Union conducted an Open Season for firm transportation from Dawn to Dawn-TCPL. TransCanada submitted a binding request for firm transportation for a quantity of 500,000 GJ/d and a term of 5 years. In light of this request for a firm transportation service, Union noted that its current Board-approved rate schedules do not provide for firm transportation between Dawn and the Dawn-TCPL interconnect. Thus, as part of its June 11th application, Union proposed to modify its C1 rate schedule to accommodate a firm transportation service from Dawn to Dawn-TCPL. Union's proposed rate design included a firm monthly transportation demand charge and seasonal fuel ratios.

The originally filed firm monthly transportation demand charge of $0.309/GJ was comprised of two parts. The first part of the demand charge was calculated using Dawn transmission compression-related costs included in the firm rate for transportation service on the Ojibway/St. Clair transmission system, adjusted for the estimated number of days compression is required. At the time of the original filing, Union estimated that there would be approximately 211 days per year (151 days in winter and 60 days in summer) when gas requiring Dawn compression flows through the Dawn-TCPL interconnect. This has been revised in the updated evidence. The second part of the demand charge recovered the costs associated with the capital investment of approximately $3.3 million to modify Union's facilities at the Dawn-TCPL interconnect to allow for custody transfer metering at the anticipated volumetric levels. These modifications are required in order to provide this firm transportation service. There has been no change to this component of the firm monthly demand charge.

In light of further discussions with TransCanada and how it will use this service, Union is seeking a change to its rate proposal. This Addendum and updated evidence describes the change in the estimated number of days of use of the service and the resulting impacts to Union's rate proposal.

As noted in its June 11th application, Union's expectations of nominations, physical flows and resulting days of use for this service were developed based on the assumption that the service would be used each winter day (151 days) and selected summer days (60 days). Union is proposing the number of days which Dawn to Dawn-TCPL compression is required be reduced to 90 days in the winter months, which includes each gas day in December, January and February.

Compression will be required at Dawn-TCPL to provide this service when the total amount of nominated imports from TransCanada at Dawn-TCPL is less than the total amount of nominated exports at Dawn-TCPL. The total quantity of gas to be compressed could vary between 0 and 500,000 GJ/d and based on discussions with TransCanada, it is expected to occur during the winter months. The service is not expected to be required in the summer months and therefore it has not been included in the forecast. If the service is used in the summer, only UFG will be recovered. Compression requirements are dependent upon the quantity of gas delivered to Dawn-TCPL from TransCanada.

As highlighted in Union's updated evidence (dated July 15, 2010), this change to the number of days of compression impacts the calculation of the rate for the service. At the same time, this change in no way impacts Union's ratepayers and further reflects Union's commitment to responding to customer feedback.

TransCanada requires this service to meet its winter 2010/2011 transportation requirements. Accordingly, Union is seeking approval of the proposed rate effective November 1, 2010.

UNION GAS LIMITED

DAWN TO DAWN-TCPL FIRM TRANSPORTATION RATE

PREFILED EVIDENCE

The purpose of this evidence is to support Union Gas Limited's ("Union") application for approval of a firm transportation rate from Dawn to Dawn-TCPL, Union's interconnect with TransCanada PipeLines ("TransCanada") located within the Dawn Compressor Station ("Dawn").

The evidence is organized as follows:

1. Introduction
2. Customer Need
3. Rate Design
4. Summary

1. INTRODUCTION

In response to a request for firm transportation service from TransCanada, Union is applying for approval of a firm Dawn to Dawn-TCPL transportation rate, effective November 1, 2010. The new service is a direct response to the changing North American gas supply dynamics. The North American natural gas market continues to evolve. The continued decline in gas supplies from the Western Canadian Sedimentary Basin, concurrent with the rapid and significant growth in new sources of supply, including the Marcellus Shale in Pennsylvania and New York, are impacting the flows of natural gas, both into and out of Dawn.

In response to TransCanada's request for this service, Union conducted an open season for firm transportation from Dawn to Dawn-TCPL. TransCanada submitted a binding request for firm transportation for a quantity of 500,000 GJ/d and a term of 5 years. Union and TransCanada have executed a firm transportation contract for service commencing November 1, 2010.

To provide the proposed transportation service at the volume requested, Union must make modifications to its existing facilities at Dawn to allow for custody transfer metering. The estimated capital cost associated with the station and metering modifications is $3.3 million. Union plans to complete these modifications during the summer of 2010 in order to meet the contracted requirement with TransCanada. These facilities do not require Leave to Construct approval from the Board.

Union's current approved rate schedules do not provide for firm transportation service between Dawn and the Dawn-TCPL interconnect. Therefore, Union is proposing to modify the C1 rate schedule to accommodate a firm transportation service from Dawn to Dawn-TCPL. Union's rate proposal is provided in Table 1.

Table 1

Proposed Firm Dawn to Dawn-TCPL Transportation Rate

Line No.		Proposed
1	Monthly Demand Charge ($/GJ applied to Daily Contract Demand)	$0.222
2	Fuel Ratio – November 1 to March 31 – Fuel & UFG	0.645%
3	Fuel Ratio– April 1 to October 31 – UFG Only	0.332%

A detailed description of Union's proposed rate design is provided later in this evidence.

2. CUSTOMER NEED

TransCanada has requested firm transportation service from Dawn to Dawn -TCPL. The physical design of the Dawn yard is based on gas imports from the west (Western Canadian Sedimentary Basin) and exports to the east (Ontario, Quebec, New York). However, as customer needs change, Union may be required to add additional facilities and/or develop firm transportation rates to accommodate changes in gas flows in the Dawn area.

Currently, Union can accommodate requests for westerly exports to Dawn-TCPL on an interruptible basis, via displacement. Providing this service is currently contingent on having sufficient easterly flowing gas from Great Lakes Gas Transmission Company ("Great Lakes") to Dawn-TCPL.

To provide firm service between interconnects within the Dawn yard, Union must ensure that it has sufficient facilities and the appropriate rate structure in place. Union has applied for, and the Board has approved, a rate for similar firm transportation services between interconnects within the Dawn yard in the past. For example, at the request of Greenfield Energy Centre LP (GEC), Union applied for approval of a firm transportation service from Dawn to Dawn-Vector (EB-2007-0613). The Dawn to Dawn-Vector service supports the export of gas west out of Dawn to the Vector pipeline. In its Decision (dated June 28, 2007), the Board approved this service effective January 1st, 2008.

In the case of transportation service from Dawn to Dawn-TCPL, Union's system has always provided the ability to export gas from Dawn to Dawn-TCPL on an interruptible basis for transportation on Great Lakes. However, customers have expressed a desire for reliability in the form of a firm transportation service between these two points on Union's system. Attachment A is an article from the April 2010 Union Gas S&T newsletter "Dawn Horizon" detailing the history and natural gas flow dynamics impacting the Dawn Hub.

TransCanada currently sells short-haul transportation services with a receipt point of Dawn-TCPL and a delivery point further east, including the CDA, EDA and Waddington. TransCanada's firm commitments for these transportation routes are approximately 500,000 GJ/day greater than the easterly contracted capacity it has on Union's system between Dawn and Parkway. To meet these obligations east of Parkway, TransCanada has historically used a combination of Dawn to Parkway contracts with Union, along with the flexibility provided by its integrated system.

Union conducted an open season from April 27, 2010 to May 19, 2010 for firm Dawn to Dawn-TCPL transportation. A copy of the open season is provided at Attachment B (revised as described below). The open season provided customers the ability to request firm transportation from Dawn to Dawn-TCPL for a quantity up to 500,000 GJ/d and a term of 10 years.

As the open season progressed, TransCanada requested two changes to the open season; i) an extension to the close of the open season to allow all interested parties additional time to understand the issue and reach consensus on who should participate in the open season (either individual shippers or TransCanada on behalf of its shippers); and, ii) a shorter contract term (5 years) to be more closely aligned with the terms of the shipper contracts on its system as well as the contract TransCanada holds on Great Lakes to transport gas from Dawn-TCPL to St. Clair to Emerson. Union was able to accommodate both requests. The open season was extended to May 27, 2010 and an additional offer of a 5-year term and an associated 5-year rate was made available.

At the close of the open season, TransCanada submitted a binding request for a firm transportation contract for Dawn to Dawn-TCPL for a daily quantity of 500,000 GJ/d and a term of 5 years. Union and TransCanada have executed a firm transportation contract. This timeline is necessary given the fact facility modifications and an approved rate structure need to be in place by November 1, 2010.

3. RATE DESIGN

As indicated above, Union is proposing to modify the current approved C1 rate schedule to accommodate firm transportation service from Dawn to the Dawn-TCPL interconnect. Union's proposed rate design consists of the following components:

1. A firm monthly transportation demand charge of $0.222/GJ applied to daily contracted demand. This component of the rate is intended to make a contribution towards the recovery of existing Dawn compression costs and to recover the costs associated with the new facilities necessary to provide firm transportation service.
2. Seasonal fuel ratios to recover incremental Dawn compressor fuel and UFG associated with providing the service.

In its design of the firm monthly transportation demand charge, Union considered;

1. The physical flow of gas between Dawn and the Dawn-TCPL interconnect; and
2. The rate design principles underpinning Union's existing approved rates.

Each component of the proposed rate is discussed in more detail below. A copy of the C1 rate schedule with the proposed firm Dawn to Dawn-TCPL rates is provided at Schedule 1 Updated.

FIRM MONTHLY TRANSPORTATION DEMAND CHARGE

As indicated above, TransCanada has requested 500,000 GJ's per day of firm transportation service from Dawn to Dawn-TCPL for a five year period. To facilitate the Dawn to Dawn-TCPL transportation service Union will physically transport gas westerly from Dawn to the Dawn-TCPL interconnect. The details on the facilities required to physically transport gas westerly to the Dawn-TCPL interconnect are discussed below.

To physically transport gas from Dawn to the Dawn-TCPL interconnect, Union will use existing compression facilities at Dawn and incur incremental compressor fuel and UFG costs. Union will also require modifications to its existing facilities to allow for custody transfer metering at the anticipated volumetric levels. The capital cost associated with the station and metering modifications is approximately $3.3 million.

Union proposes that the firm monthly Dawn to Dawn-TCPL transportation demand charge of $0.222/GJ be comprised of two parts.

The first part of the firm monthly demand charge is calculated using Dawn transmission compression-related costs included in the firm rate for transportation service on the Ojibway/St. Clair transmission system, adjusted for the estimated number of days compression is required. Union estimates that there will be approximately 90 days per year in the winter when gas requiring Dawn compression flows through the Dawn-TCPL interconnect. This component of

Union's proposed rate design provides for a reasonable contribution to the recovery of fixed costs associated with the assets used to provide the transportation service. This rate design is consistent with the Board approved rate design of the Dawn to Dawn-Vector firm transportation rate.

The second part of the firm monthly demand charge recovers the costs associated with the capital investment of approximately $3.3 million required to provide the firm transportation service. As described above, Union will require modifications to its existing facilities at the Dawn-TCPL interconnect to allow for custody transfer metering at the anticipated volumetric levels.

As indicated above, TransCanada is contracting for a firm transportation service from Dawn to the Dawn-TCPL interconnect for five years only. Union has no assurance from TransCanada that the contract will be renewed beyond the term of 5 years. TransCanada is the only participant in the open season and the market interest in this firm transportation service is limited. Further, if TransCanada did not renew its contract upon expiration, the traditional rate design methodology would not recover all of the capital costs required to construct the facilities. Accordingly, Union proposes to recover the costs associated with the capital investment of approximately $3.3 million over five years. All costs associated with the capital investment to facilitate the firm transportation service will be recovered solely from TransCanada in the proposed firm monthly transportation demand charge. This approach is appropriate given the short term nature of the service and to ensure that the costs associated with the capital investment are not borne by other ratepayers. The calculation of the average annual revenue requirement to recover the costs of the capital investment over five years can be found at Schedule 2.

Union is seeking the Board's approval of a depreciation rate of 20% for the $3.3 million capital investment based on the five year contract term. Monthly depreciation will be calculated using the straight-line method computed by applying the annual percentage to the cost of the plant as of the first of each month and dividing by twelve for the period November 1, 2010 to the termination of the contract.

The derivation of both parts of the firm monthly Dawn to Dawn-TCPL transportation demand charge can be found at Schedule 3 Updated.

COMMODITY CHARGE

Union is proposing to set the seasonal fuel ratios to recover incremental Dawn compressor fuel and UFG for the number of days compression is required. The proposed fuel ratio for winter transportation is 0.645% which recovers Dawn compressor fuel and UFG for 90 days of compression. If transportation service is required between April 1 and October 31 the proposed fuel ratio is 0.332% which will recover UFG only. The derivation of these fuel ratios can be found at Schedule 4 Updated.

3. SUMMARY

Union is proposing to modify its current approved C1 rate schedule to accommodate firm transportation service from Dawn to the Dawn-TCPL interconnect. Union's proposed rate design consists of the following components:

1. A firm monthly transportation demand charge of $0.222/GJ applied to daily contracted demand. This component of the rate is intended to make a contribution towards the recovery of Dawn compression costs as well as recover the revenue requirement associated with Union's capital investment at Dawn; and

2. Seasonal fuel ratios to recover incremental Dawn compressor fuel and UFG associated with providing the service.

This service has been requested by TransCanada to meet its winter 2010/2011 transportation requirements on behalf of its customers. Accordingly, Union is seeking approval of the proposed rates effective November 1, 2010.

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CROSS FRANCHISE TRANSPORTATION RATES

(A) Applicability

To a Shipper who enters into a Contract with Union for delivery by Shipper of gas to Union at one of Union's points listed below for redelivery by Union to Shipper at one of Union's points.

Applicable Points	(1)	(2)
	Ojibway	WDA
	St. Clair	NDA
	Dawn*	SSMDA
	Parkway	SWDA
	Kirkwall	CDA
	Bluewater	EDA

*includes Dawn (TCPL), Dawn Facilities, Dawn (Tecumseh), Dawn (Vector) and Dawn (TSLE)

(B) Services

Transportation Service under this rate schedule is transportation on Union's pipeline facilities between any two Points as specified in Section (A), column 1.

(C) Rates

The identified rates (excluding gas supply charges, if applicable) represent maximum prices for service. These rates may change periodically. Multi-year prices may also be negotiated, which may be higher than the identified rates.

Transportation Service:

	Monthly Demand Charge (applied to daily contract demand)	Commodity Charges If Union supplies fuel Commodity Charge		If Shipper supplies fuel Fuel Ratio	
	Rate/GJ	Apr.1-Oct.31 Rate/GJ	Nov.1-Mar.31 Rate/GJ	Apr.1-Oct.31 %	Nov.1-Mar.31 %
a) Firm Transportation					
Between:					
St.Clair & Dawn	$0.985	$0.023	$0.027	0.356%	0.436%
Ojibway & Dawn	$0.985	$0.030	$0.035	0.502%	0.572%
Bluewater & Dawn	$0.985	$0.023	$0.027	0.356%	0.436%
From:					
Parkway to Kirkwall	$0.551	$0.023	$0.020	0.357%	0.332%
Parkway to Dawn	$0.551	$0.023	$0.020	0.357%	0.332%
Dawn to Kirkwall	$2.014	$0.032	$0.070	0.523%	1.149%
Dawn to Parkway	$2.366	$0.032	$0.070	0.523%	1.149%
b) Interruptible and Short Term (1 year or less) Firm Transportation:					
Maximum		$75.00	$75.00		
c) Firm Transportation between two points within Dawn					
Dawn to Dawn-Vector	$0.043	n/a	n/a	0.207%	n/a
Dawn to Dawn-TCPL	$0.222	n/a	n/a	0.332%	0.645%
d) Interruptible Transportation between two points within Dawn*					
*includes Dawn (TCPL), Dawn Facilities, Dawn (Tecumseh), Dawn (Vector) and Dawn (TSLE)				0.332%	0.332%

(C) Rates (Cont'd)

Authorized Overrun:

The following Overrun rates are applied to any quantities transported in excess of the Contract parameters. Overrun will be authorized at Union's sole discretion.

	If Union supplies fuel Commodity Charge		Commodity Charges If Shipper supplies fuel Fuel Ratio		
	Apr.1-Oct.31	Nov.1-Mar.31	Apr.1-Oct.31	Nov.1-Mar.31	Commodity Charge
a) Firm Transportation	Rate/GJ	Rate/GJ	%	%	Rate/GJ
Between:					
St.Clair & Dawn	$0.055	$0.060	0.356%	0.436%	$0.033
Ojibway & Dawn	$0.063	$0.069	0.502%	0.572%	$0.033
Bluewater & Dawn	$0.055	$0.060	0.356%	0.436%	$0.033
From:					
Parkway to Kirkwall	$0.021	$0.019	0.958%	0.933%	$0.018
Parkway to Dawn	$0.021	$0.019	0.958%	0.933%	$0.018
Dawn to Kirkwall	$0.079	$0.117	1.124%	1.750%	$0.066
Dawn to Parkway	$0.090	$0.128	1.124%	1.750%	$0.078
b) Firm Transportation within Dawn					
Dawn to Dawn-Vector	n/a	n/a	0.443%	n/a	$0.001
Dawn to Dawn-TCPL	n/a	n/a	0.332%	0.645%	$0.007

Authorized overrun for short-term firm transportation is available at negotiated rates.

Unauthorized Overrun:

The Unauthorized Overrun rate shall be the higher of the reported daily spot price of gas at either, Dawn, Parkway, Niagara, Iroquois or Chicago in the month of or the month following the month in which the overrun occurred plus 25% for all usage on any day in excess of 102% of Union's contractual obligation.

(D) Terms of Service

General Terms and Conditions applicable to this rate schedule shall be in accordance with the attached Schedule "A".

(E) Nominations

Nominations under this rate schedule shall be in accordance with the attached Schedule "B".

UNION GAS LIMITED
Derivation of Average Annual Revenue Requirement for Capital Investment
Effective November 1, 2010

Line No.	Particulars ($000's)	Year 1	Year 2	Year 3	Year 4	Year 5	Total
		(a)	(b)	(c)	(d)	(e)	(f)
	Rate Base						
1	Plant Investment	3,332	2,666	1,999	1,333	666	
2	Depreciation	666	666	666	666	666	
3	Net Plant Investment	2,666	1,999	1,333	666	0	
	Revenue Requirement						
4	Operating and Maintenance Costs	0	0	0	0	0	0
5	Depreciation	666	666	666	666	666	3,332
6	Property Taxes	0	0	0	0	0	0
7	Income Taxes	202	75	124	161	189	751
8	Return	238	185	132	79	26	660
9	Total Revenue Requirement	1,106	926	922	906	881	4,743
10	Average Annual Revenue Requirement						949

UNION GAS LIMITED
Derivation of C1 - Firm Dawn to Dawn-TCPL Transportation Rate
Effective November 1, 2010

Line No.	Particulars	
	Dawn to Dawn (TCPL) - Monthly Firm Demand Rate	
	Compression Only (no additional capital and no additional compression)	
1	Dawn Compression Revenue Requirement ($000's)	1,791
2	Maximum Day Demand (GJs)	572,246
3	Monthly Demand per Unit ($/GJ/d/month) (line 1 * 1000 / line 2 / 12)	0.261
4	Adjusted Monthly Demand per Unit ($/GJ/d/month) (line 3 * (90/365))	0.064
	Capital; Measuring and Regulating - Dawn to Dawn TCPL Export Only	
5	Incremental Capital Costs - Measurement ($000's)	3,332
6	Annual Revenue Requirement ($000's) (1)	949
7	Maximum Day Demand (GJs)	500,000
8	Monthly Demand per Unit ($/GJ/d/month) (line 6 * 1000 / line 7 / 12)	0.158
9	Monthly Firm Demand Rate - 90 day service ($/GJ/d/month) (line 4 + line 8)	0.222

Notes:
(1) Schedule 1, Line 10

UNION GAS LIMITED
Derivation of C1 - Firm Dawn to Dawn-TCPL Transportation Fuel Ratios
Effective November 1, 2010

Line No.	Particulars		Fuel (a)	UFG (1) (b)	Total (c)
	November 1 to March 31				
1	Total Fuel and UFG Over 90 Days	GJ	141,000	149,265	290,265
2	Consumption Over 90 Days (2)	GJ	45,000,000	45,000,000	45,000,000
3	Fuel Ratio Over 90 Days (3)	%	0.3133%	0.3317%	0.645%

Notes:
(1) The transportation fuel ratio for service between April 1 and October 31 will be 0.332% (UFG only).
(2) 500,000 GJ/d * 90 days
(3) Line 1 / Line 2