



July 30, 2010

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

Dear Ms. Walli:

**Re: Reply Submissions of Union Gas Limited –
Approval of Proposed Transportation Tariffs
Board File No. EB-2010-0155**

Please accept this letter as Union Gas Limited's ("Union") Reply submission in the above-noted matter.

Background

On April 1, 2010, in accordance with sections 2.3.3 and 2.4.3 of STAR, Union filed an application seeking Board approval of tariffs for its M12, C1 and M16 transportation services to be effective June 16, 2010. On April 27, 2010 the Board issued Procedural Order No.2 which extended the implementation date for sections 2.3.3 and 2.4.3 to July 1, 2010 to coincide with the issuance of the Quarterly Rate Adjustment Mechanism Rate Order.

On June 3, 2010 the Board issued a Decision approving Union's M16 tariff and directing Union to file certain changes to its C1 and M12 tariffs. On June 8, 2010, Union filed a letter with the Board requesting an extension of time to comply with this Decision. Union also requested that the STAR implementation date for these tariffs be extended to October 1, 2010.

In response to this request, the Board issued Procedural Order No. 3 on June 14, 2010. This Order not only approved the extension to October 1st, but it also established a timeline and procedure for Union to file the changes as directed by the Board.

Union filed the required changes on July 9, 2010 and parties were allowed to comment by July 23, 2010. The Canadian Manufacturers & Exporters ("CME"), the Industrial Gas Users Association ("IGUA") and Board Staff ("Staff") filed submissions.

Subject to one comment by IGUA (which will be addressed below), the stakeholders were generally satisfied that the proposed tariffs comply with STAR. This is not surprising because the Allocation of Capacity process documented in the proposed M12 and C1 transportation service tariffs is essentially the same process that Union has historically used without any complaint from Union's customers.

This Reply will therefore focus primarily on Staff's comments which all relate to the Allocation of Capacity process described in Article XVI of the proposed C1 and M12 General Terms & Conditions (the "GT&Cs"). Specifically, Article XVI deals with the allocation of long-term firm transportation.

Response to Submissions

As stated in previous submissions to the Board, Union is committed to meeting the requirements of STAR. It is Union's view that the proposed M12 and C1 tariffs meet and in some cases exceed the requirements of STAR.

Staff submitted that Union should define the terms "proposed payment" in s. XVI(1) and "proposed per-unit rate" in s. XVI(4) of the GT&Cs, and explain whether the terms mean that Union may accept a premium or a discount on the regulated firm transportation rate.

Union submits that the term "proposed payment" in s. XVI(1) needs no further definition. Section XVI(1) describes information that a customer must provide to Union when it is requesting transportation service. One item of information the customer must provide is the amount that it is offering to pay for the service, i.e. the "proposed payment". Section XVI(1) says nothing about what Union can accept as a transportation rate; this section just deals with what the customer is requesting. What rate Union can accept, i.e. whether Union may accept a premium or a discount on the regulated firm transportation rate, is governed by the regulated rate schedule for the specific service in question.

The "proposed per unit rate" referenced in s. XVI(4) is potentially a different rate than the "proposed payment" in the customer's request mentioned in s. XVI(1). A customer's "proposed payment" may not always meet the requirements of Union's regulated rate schedule or be in consistent units to allow NPV comparison (e.g. Cdn \$/GJ/month). At present, Union's M12 and C1 transportation service rate schedule does not allow Union to accept a discounted rate for these long-term services. The C1 and M12 transportation service rate schedules currently allow Union to accept a premium on the regulated firm transportation rate. However, in the Board approved Settlement Agreement from Union's 2007 rate case (EB-2005-0520), Union agreed that any premium offered would not be used as a factor to allocate firm transportation capacity greater than one year. In order to comply with that commitment, for the purpose of the NPV calculations for transportation service requests longer than one year, the proposed per unit rate will be the maximum regulated rate for the applicable transportation path.

In point 4 of Staff's submissions, Staff suggested that s. XVI(5)(c) i) should be moved so that it is in a separate sub-section immediately after subsection (5)(b). Union disagrees with this suggestion and submits that Staff comments are based on a mis-reading of s. XVI(5)(c) i). The excerpt from that subsection that is quoted in Staff's submission omits a very important part of the subsection.

The complete subsection (with the portion omitted by Staff in bold) is as follows:

XVI (5) (c) Union may reject a request for M12 transportation service for any of the following reasons:

- i) if there is insufficient Available Capacity to fully meet the request, **but if that is the only reason for rejecting the request for service**, Union must offer to supply the Available Capacity to the potential shipper".

The provision is placed in the list of reasons for rejecting a request for service because "insufficient capacity" is one of several possible reasons for rejecting a request for service.

Staff's suggestion that there should be a separate section requiring Union to offer service if there is sufficient capacity does not work because there may be other reasons why Union cannot offer the service (even if there is sufficient capacity) such as the reasons listed in subsections XVI (5)(c) ii) to iv).

In response to Staff's comparison to Enbridge's approach for "accepting a request for transportation service", Union submits that there are significant differences between the transportation services offered by the two companies. Enbridge need only allocate capacity on one transportation path with limited demands for service that is not affected by other transportation paths. Conversely, Union's allocation of capacity method must apply to multiple transportation paths, multiple directions of flow (some of which are interdependent), a variety of types of service and many customers having different lengths of term. Given that the two systems are very different, there is no reason why they should be required to use the same allocation of capacity method, and there is no requirement in STAR that they do so.

Within Union's allocation of capacity method, accepting a request for service and the allocation of capacity are events that occur simultaneously (i.e. when Union accepts a request it is effectively allocating capacity that was requested). Because Union offers a variety of transportation services and customers make a wide variety of requests for service, different amounts of time are required to respond to different requests for service. For this reason, the process and length of time required for Union to accept a request will vary depending on the complexity of the request as well as other market activities happening at the time of the request. When services or combinations of services are requested, factors such as the required path, the direction of flow and the availability of

assets that underpin a specific service all need to be considered. The process can involve a complex review of what services are available to meet the specific needs of the Shipper.

A good example of this is the proposed M12X firm transportation service, which along with other transportation services, is being offered as part of Union's current 2011-2013 non-binding Open Season. The Open Season resulted from continued interest in Marcellus gas supplies coming to Ontario through Kirkwall as well as deliveries of gas from Dawn to Parkway. The proposed M12X transportation service will allow a Shipper to transport gas between any of Dawn, Parkway and Kirkwall, in any direction and on a firm basis. Comparing requests for M12X transportation service to a request for traditional M12 Dawn to Parkway firm transportation service, allocating capacity for M12X transportation service may require additional time to allow for analysis of the multiple transportation receipt and delivery points, and the impacts of bi-directional flow. As Union continues to develop new transportation services, the allocation of capacity may become more complex. However, Union is mindful of the requirement for a timely response to requests for service and that it is prudent to respond to all requests for service in a prompt manner.

Staff asked for clarification as to why the allocation of available capacity (not in an Open Season) is triggered when the requests are accepted and not when the requests are received. If a competing request for service is received before another request is accepted, Union would allocate capacity to the request with the highest NPV. For firm transportation contracts with a term of longer than one year, the length of the proposed term of the contract is the only relevant factor in the NPV calculation, thus allowing Union's proposed method to result in it allocating capacity to the request with the longest proposed term. Union submits this would be in the overall public interest as it would allow Union to maximize the use of its assets, supporting an efficient and effective use of the transportation system.

With respect to s. XVI 5(d) ii), Staff stated that "Union indicated that when it has limited available capacity and it receives multiple requests, the potential shippers must resubmit their requests". This is an incorrect interpretation of s. XVI 5(d) ii). Under that section, Shippers are not required to resubmit their requests, rather, they have the option to do so. Allowing interested customers to submit new bids with the knowledge that their service requests will be considered along with a competing bid provides more transparency, since customers may be willing to bid for a longer term if they knew that would have a better opportunity to obtain the capacity. In many cases, customers may not want a partial allocation of capacity, especially if they have a downstream market need which requires the full quantity requested. In practice, however, a situation of competing bids would occur very rarely because Union would likely initiate an Open Season if there was a lot of interest in a service.

As noted earlier in this submission, IGUA asked for clarification as to how Union would choose between the “Open Season” response and the “opportunity for resubmission” response. When allocating capacity previously offered in an open season, the decision may be based on a variety of factors depending on the given circumstances at the time, such as the level of interest (i.e. number of requests) and the timing of the required service. For example, if Union has reason to believe there might be other Shippers who are interested in this capacity and if time allowed, Union may hold an Open Season. Conversely, if there was limited interest in the specific service, or if there was insufficient time to hold an Open Season in order to meet customer requirements (e.g. STAR requires that an Open Season be open for at least 10 business days) Union may choose to allocate capacity without an Open Season. Because of the wide variety of possible circumstances and factors for consideration, no firm criteria can be listed in the proposed tariff. It is to be remembered that the Available Capacity being offered in this manner would have been offered in at least one previous Open Season, and therefore STAR does not require that it be offered again by Open Season.

In short, Union always has the option to conduct an Open Season. However, depending on circumstances it may not always be possible or prudent to do so. It is important to note, however, that Union cannot predict all such circumstances in tariff language. Regardless, all affected Shippers would be informed as to what approach would be used at the time.

For the reasons outlined above, Union respectfully requests that the Board approve the changes as proposed to its M12 and C1 transportation tariffs as filed.

Should you have any questions please contact me at (519) 436-5473.

Yours truly,

[Original signed by]

Karen Hockin
Manager, Regulatory Initiatives

c.c.: EB-2010-0155 Intervenors
Sharon Wong (Blakes)
Mark Kitchen
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Zora Crnojacki (Board Staff)