



uniongas

A Spectra Energy Company

October 5, 2010

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

Attention: Ms. Kirsten Walli, Board Secretary

**RE: EB-2010-0199 – 2010 Natural Gas Market Review –Union Gas Limited’s
Presentation**

Dear Ms. Walli:

On September 21, 2010, Union Gas Limited (“Union”) filed an overview of the presentation it will make at the 2010 Natural Gas Market Review stakeholder conference. Below are the slides Union will be presenting on October 7 & 8, 2010.

Sincerely,

[original signed by]

Karen Hockin
Manager, Regulatory Initiatives

c.c.: EB-2010-0199 Participants
Emily Kirkpatrick, Torys

2010 Natural Gas Market Review

Stakeholder Conference

Presentation by Union Gas

October 7-8, 2010

1. Principles for Effective Gas Markets in Ontario
2. ICF Market Report and Supporting Trends
3. Market Response to Changing Supply Dynamics
4. Looking Out – Next 5 Years

Ontario will achieve a competitively priced, reliable gas market when there is:

1. A robust market hub with growing liquidity
2. No undue influence from any basin, route or company
3. A working market

Liquidity at the Dawn Hub is essential for providing cost-effective gas supply to Ontario

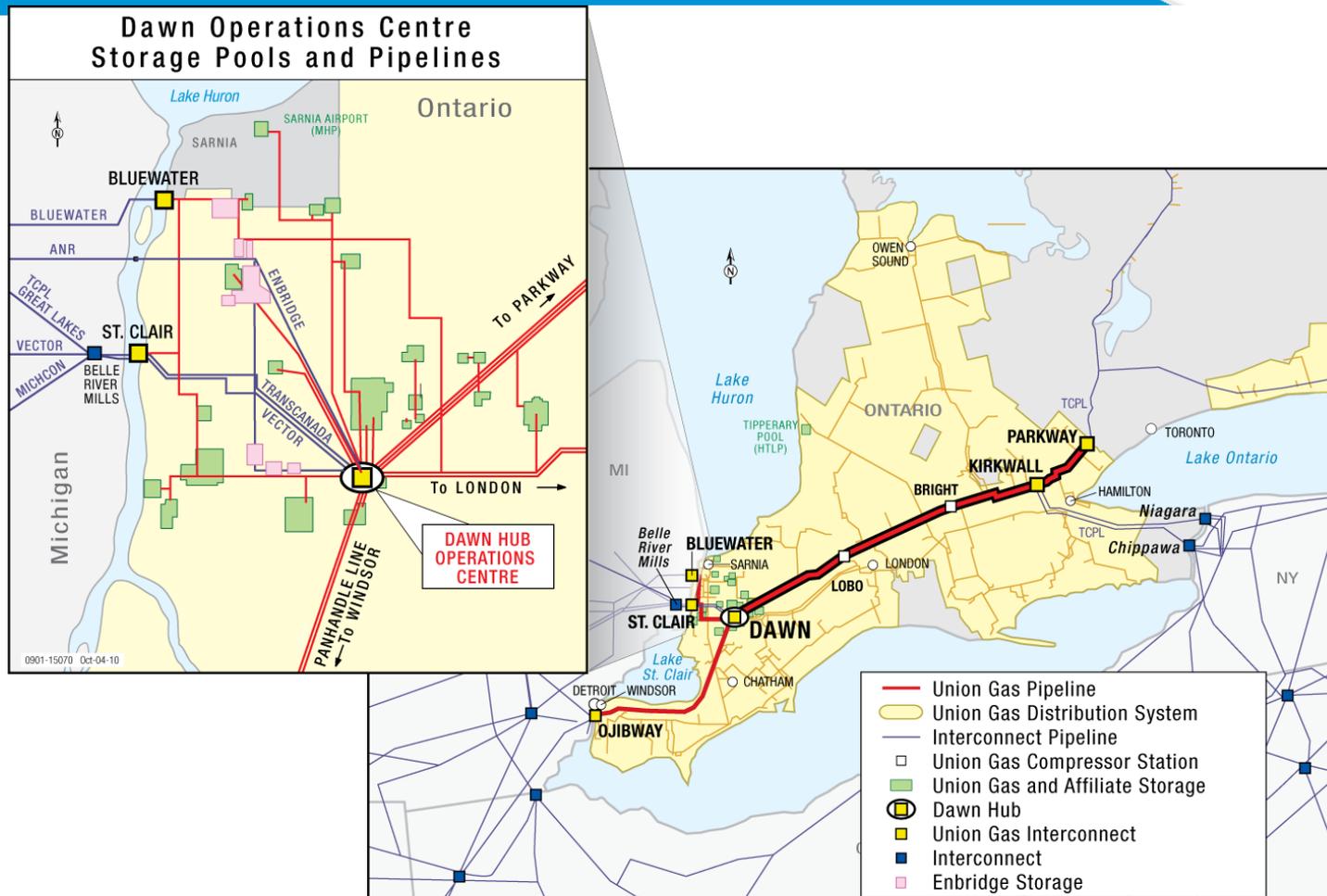
How is Market Hub Liquidity Created



- A hub is a physical location, supported by extensive infrastructure where many natural gas buyers and sellers can easily transact.
- Characteristics include:
 - i. Physical infrastructure at hub (storage and pipeline)
 - ii. Physical/financial market for natural gas
 - iii. Price transparency
 - iv. Large number of potential buyers and sellers

Strength in these characteristics = Liquidity

The Dawn Hub

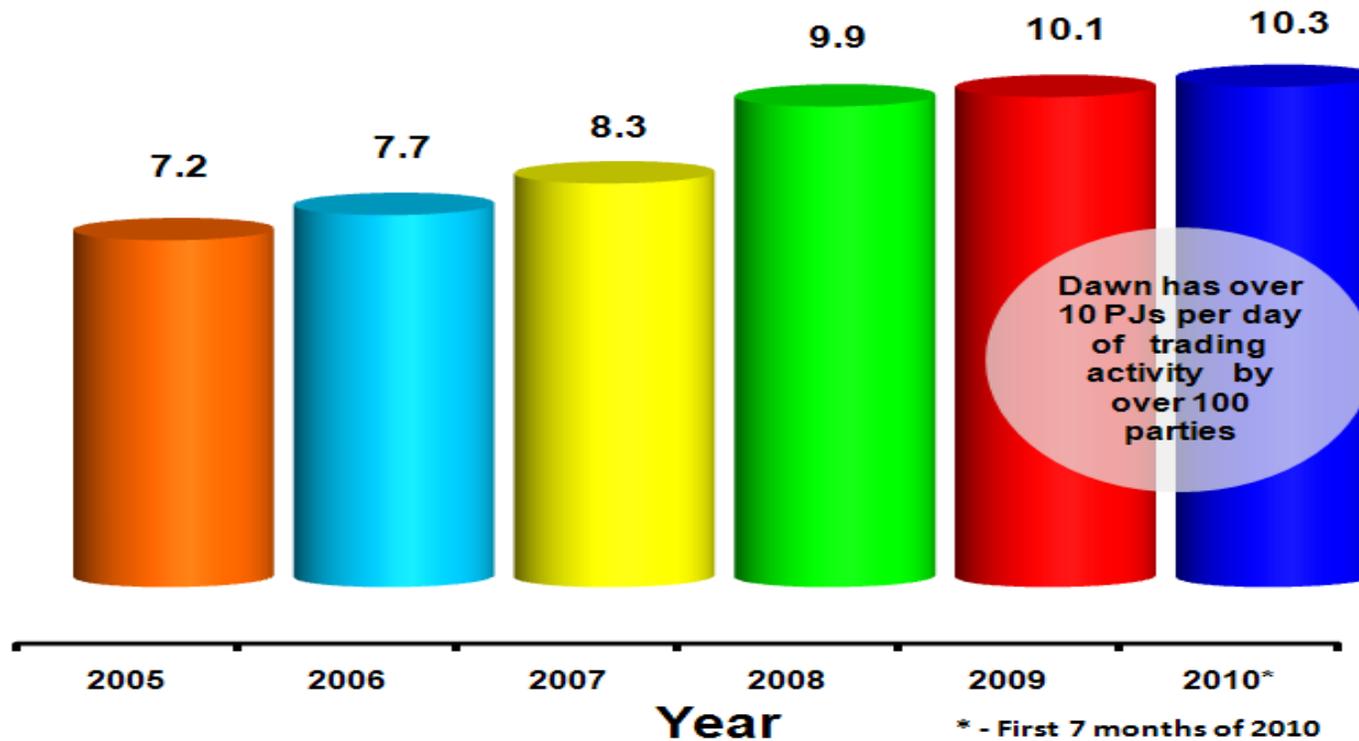


The Dawn Hub is an important interconnect between many pipelines and storage facilities

Commercial Activity at Dawn



Average Title Transfer (PJ/d)



Dawn trades at over 3 times its physical capacity per day

- The Dawn Hub provides Ontario with cost-effective supply through:
 - Price discovery
 - Accurate market signals
 - Diversity of supply options
 - Balance of supply and demand
 - Security of supply with multiple supply sources

Dawn liquidity allows for a competitive market in Ontario

“The Board concludes that it is in the public interest to maintain and enhance the depth and liquidity of the market at the Dawn Hub as a means of facilitating competition. One way to do this is to encourage the development of innovative services and to ensure access to those services. Choice is the bedrock of competition. ”

EB-2005-0551, Pg 45.

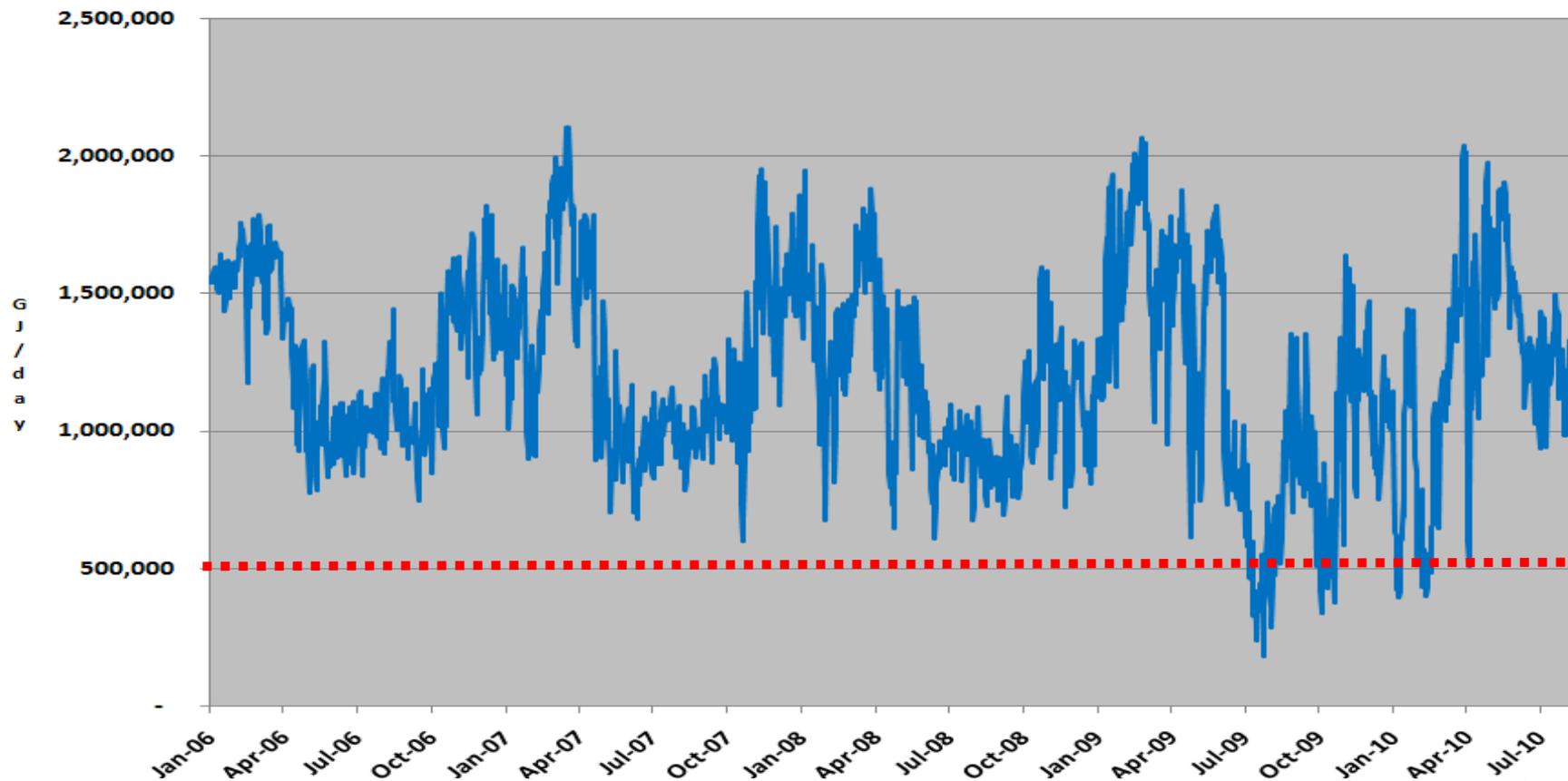
This NGEIR decision has led to a strong gas market and significant investment in Ontario

ICF Market Report and Supporting Trends

- Union Gas agrees with the majority of the findings in the ICF report
- Key trends in Ontario supporting ICF report:
 - Declining volumes on TCPL (Great Lakes Gas Transmission) into Dawn
 - Increasing TCPL tolls
 - Empress volumes flowing east declining; Dawn volumes flowing east increasing
 - Increasing Marcellus supply
 - Declining Kirkwall/Niagara/Chippawa exports
- Union Gas further believes that:
 - Supply options are indeed available to North customers
 - Marcellus gas will move into Ontario in greater volumes and sooner

Flow patterns are changing; Western Canada supply decline and emergence of Marcellus shale are primary drivers

Trends – Declining Supply on TCPL (Great Lakes) into Dawn



Flows into Dawn off Great Lakes have declined below 500,000 GJ/day for the first time

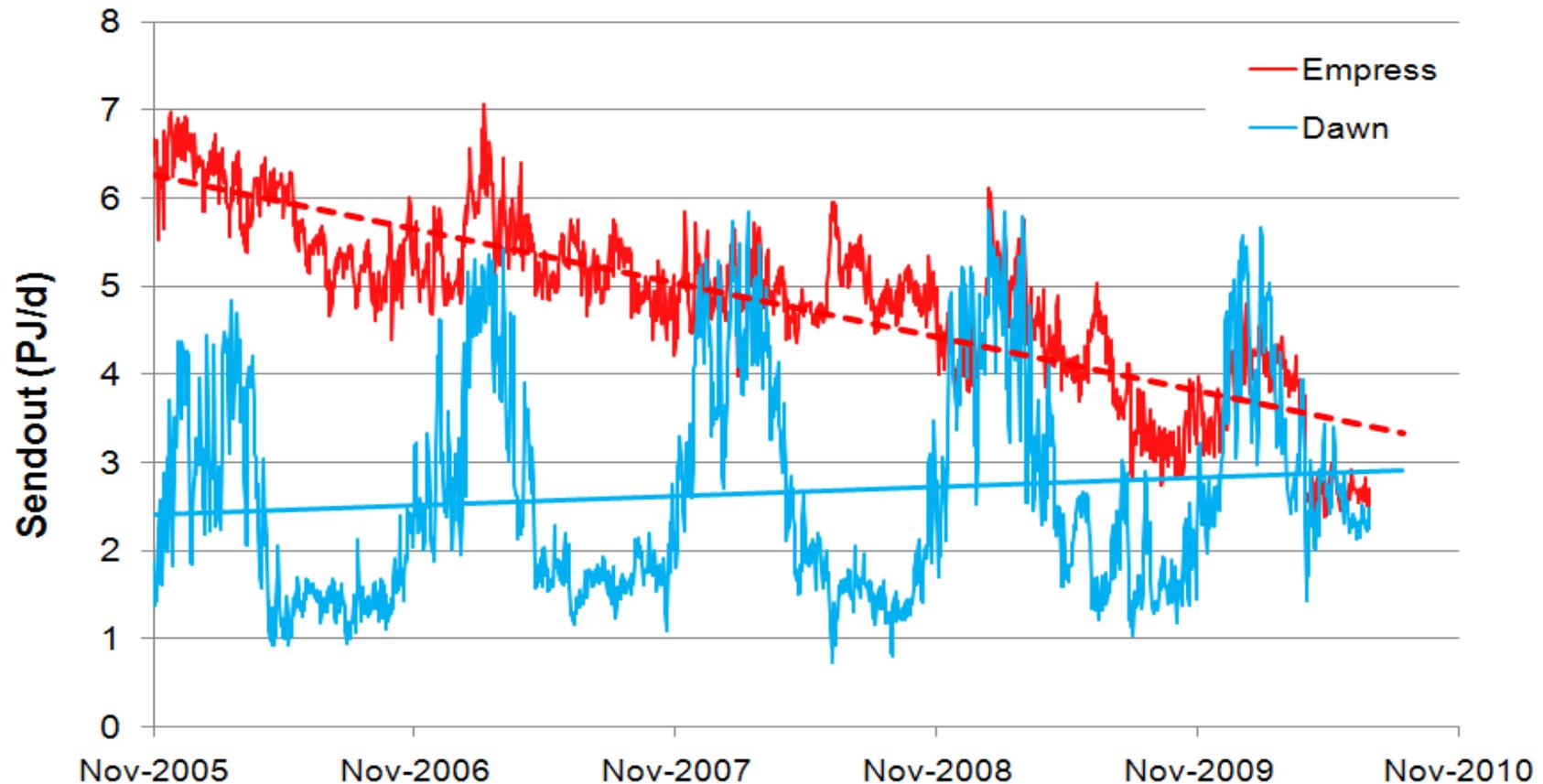
Trend – Increasing TCPL Tolls



- Declining flows on TCPL have lead to increasing tolls. Over the last 24 months tolls from Empress to Parkway (Union CDA) have increased from \$1.03/GJ to \$1.64/GJ (59% increase)
- For 2011, continued contract reductions will result in further escalation in tolls under the current rate setting methodology.

WCSB supply shipped on TCPL to Ontario is now Union's most expensive supply option

Trend - Empress vs Dawn Flows

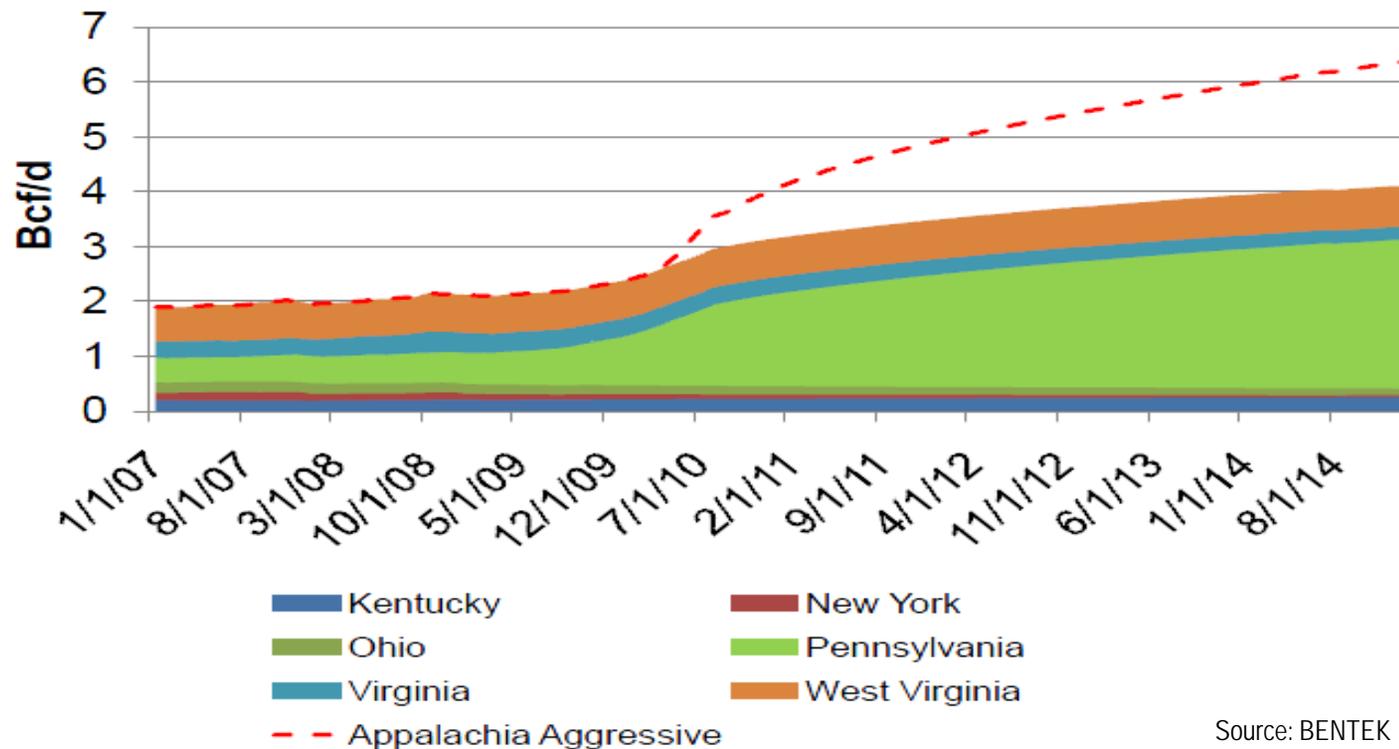


Exports have decreased from Western Canada to the East while Dawn exports have increased

Trend – Rapid Growth in Marcellus

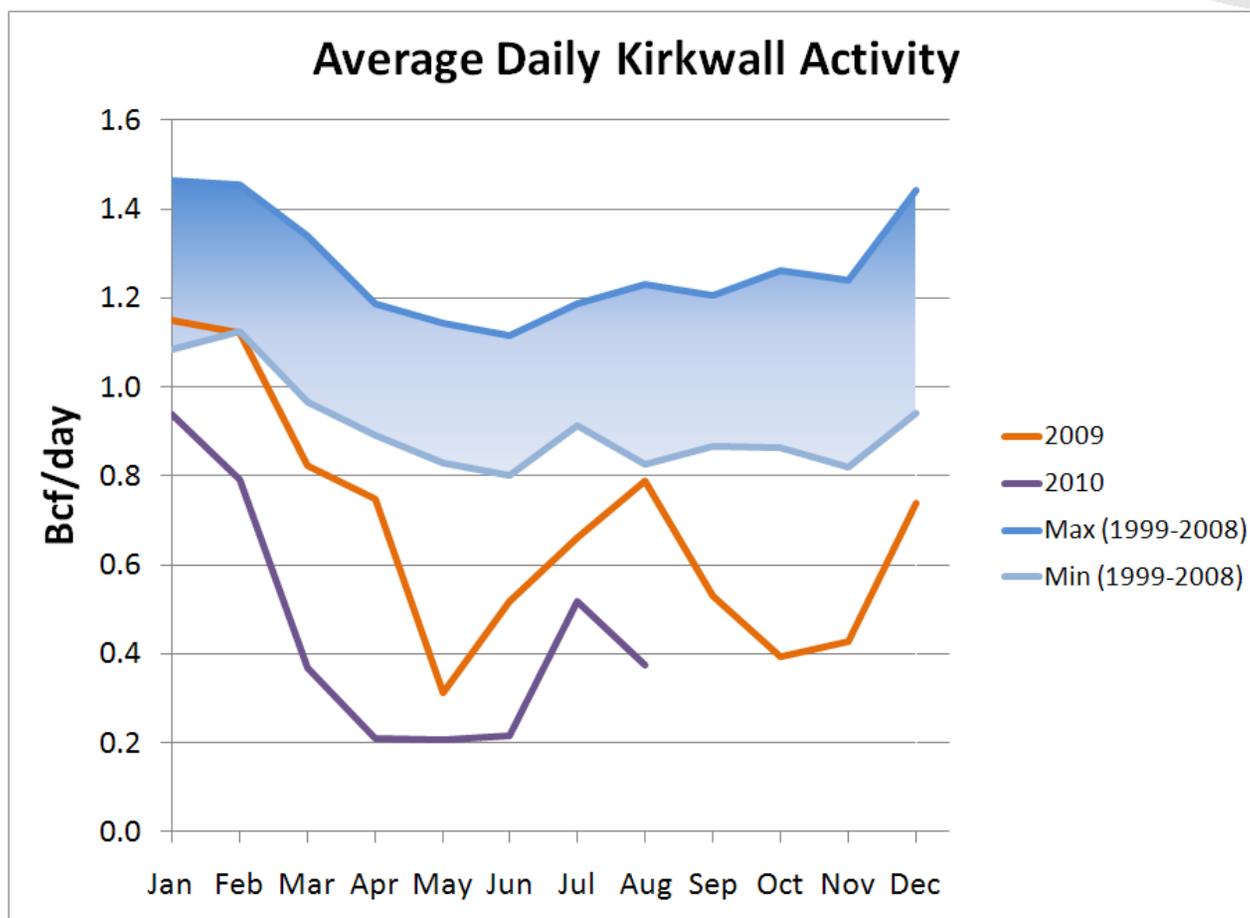


Appalachian Production Growth



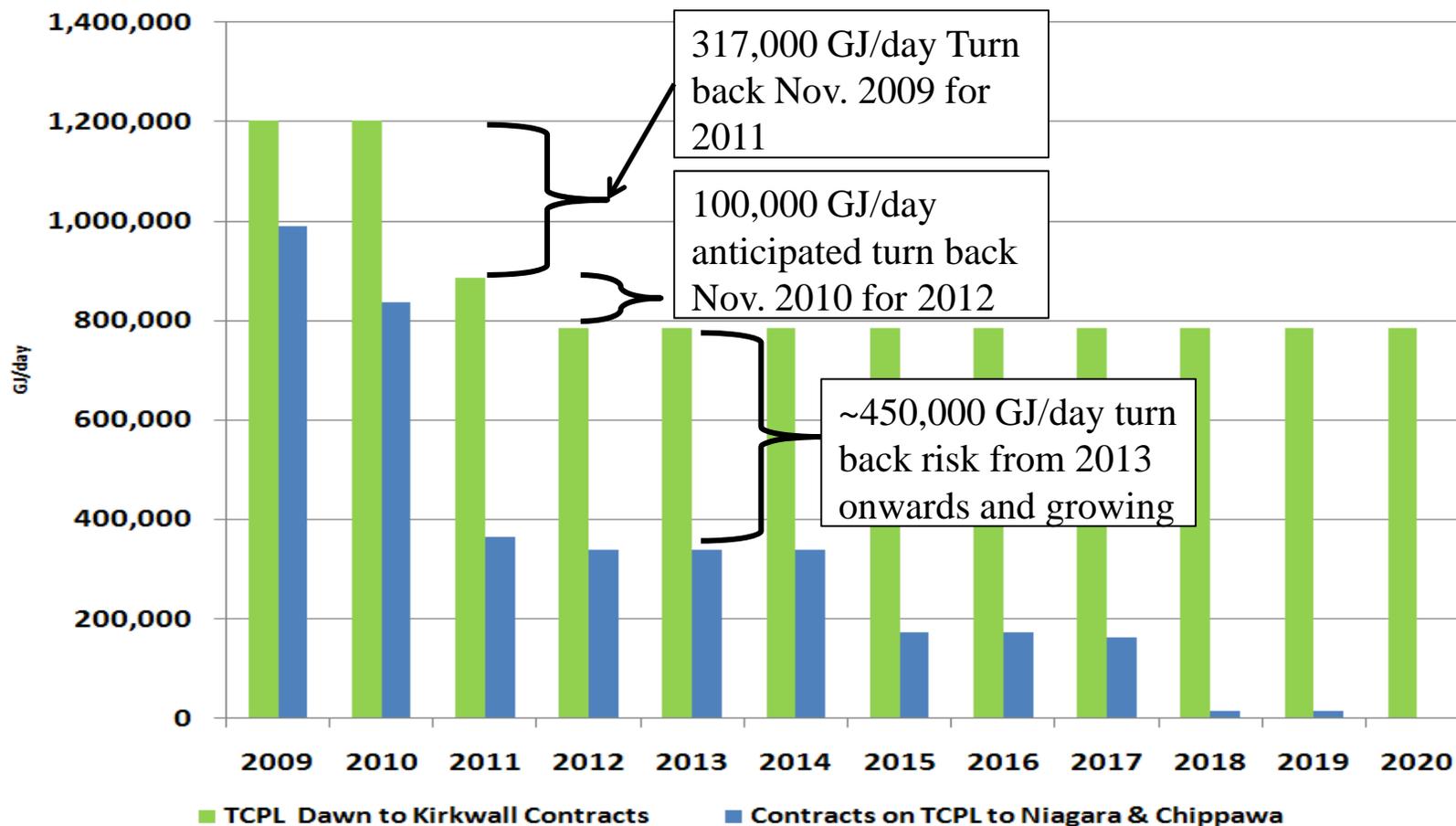
Marcellus Shale will continue to grow and will be an important source for Ontario supply going forward

Trend – Declining Flows at Kirkwall



The US Northeast is relying less on easterly flows on the Dawn-Trafalgar system.

Trend - De-Contracting Risk of Dawn to Kirkwall (TCPL)



With the emergence of Marcellus supply, TCPL's need for Dawn – Kirkwall capacity for exports is diminishing. Dawn –Trafalgar asset must be re-purposed.

Market Response

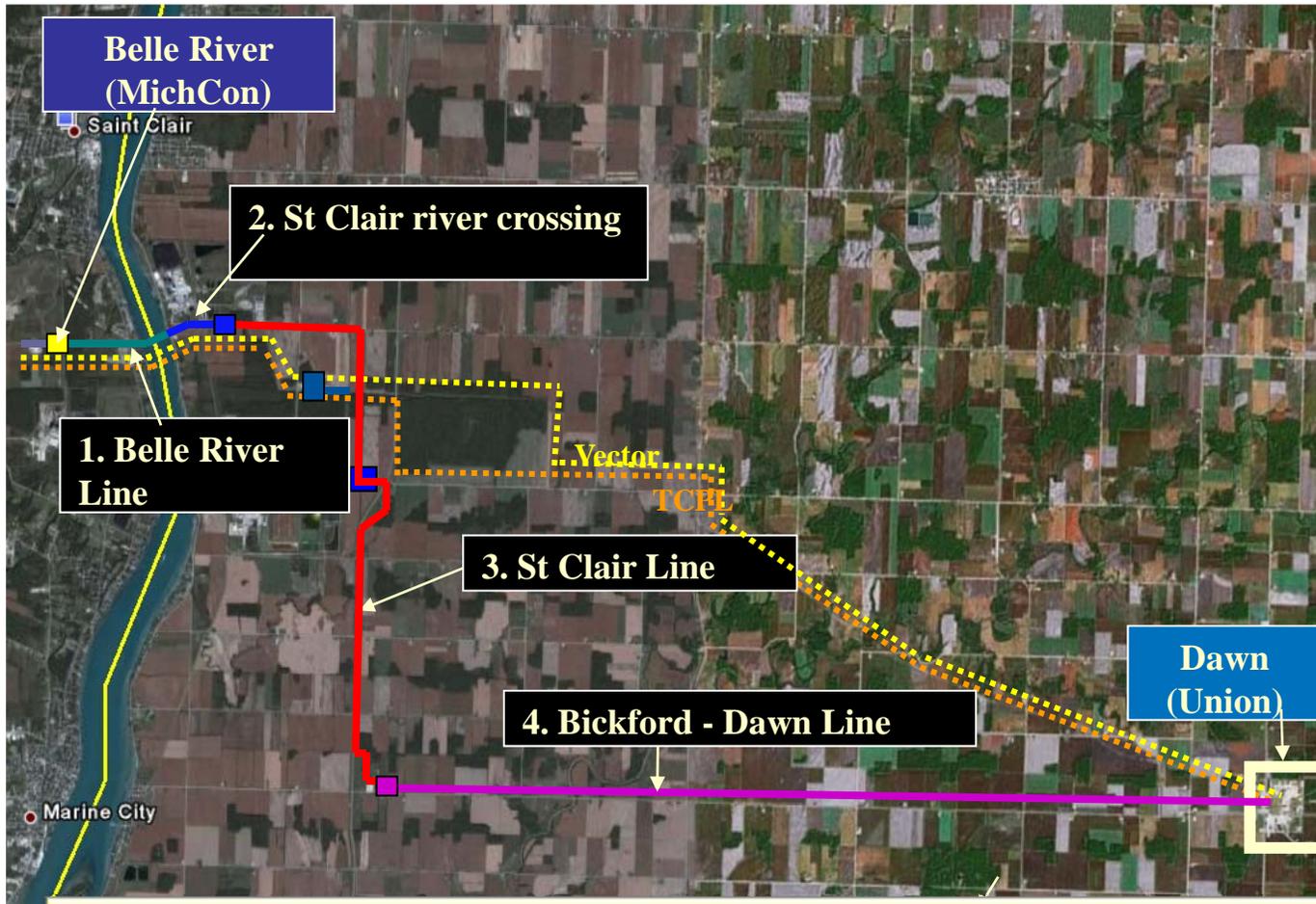
A number of projects and services have been proposed/developed to support the changing natural gas demand and supply in the Great Lakes/U.S. Northeast region.

1. Dawn Gateway Pipeline Project
2. Reversal of Dawn – Exports into Great Lakes Gas Transmission
3. Reversal of Kirkwall and Marcellus projects to supply Ontario
4. TCPL Mainline Competitiveness Initiative
5. System Supply – Supplying the North Differently and Sourcing Marcellus

Still required... Expansion of Parkway to Maple

The market is responding with competitive options

Dawn Gateway Pipeline Project



Update

- Gateway links Gulf Coast shale gas, Rockies gas and Michigan storage to Dawn (using other upstream pipelines).
- Working with market to see if interest exists for new open season
- Decision in Nov 2010 for 2011 construction.

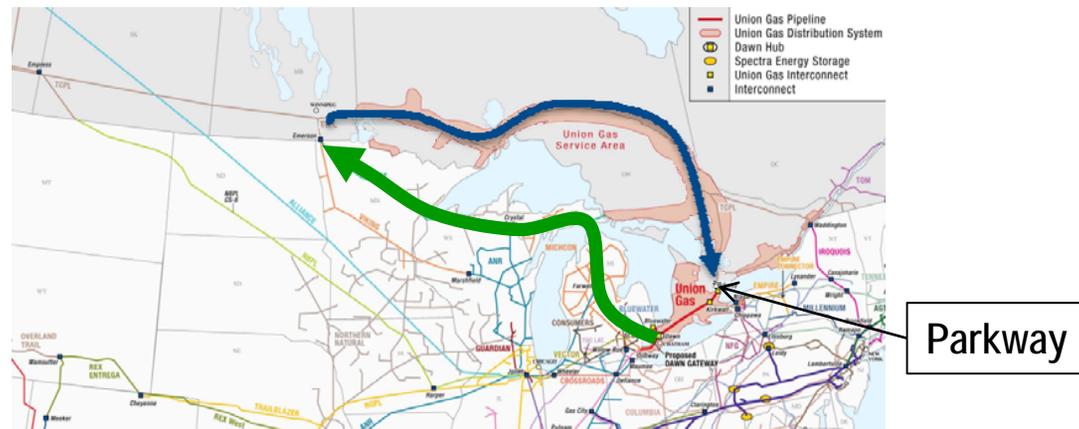
Dawn Gateway is an important link to emerging supply basins and upstream storage and will support gas moving to Ontario

Reversal of Dawn into TCPL (Great Lakes)



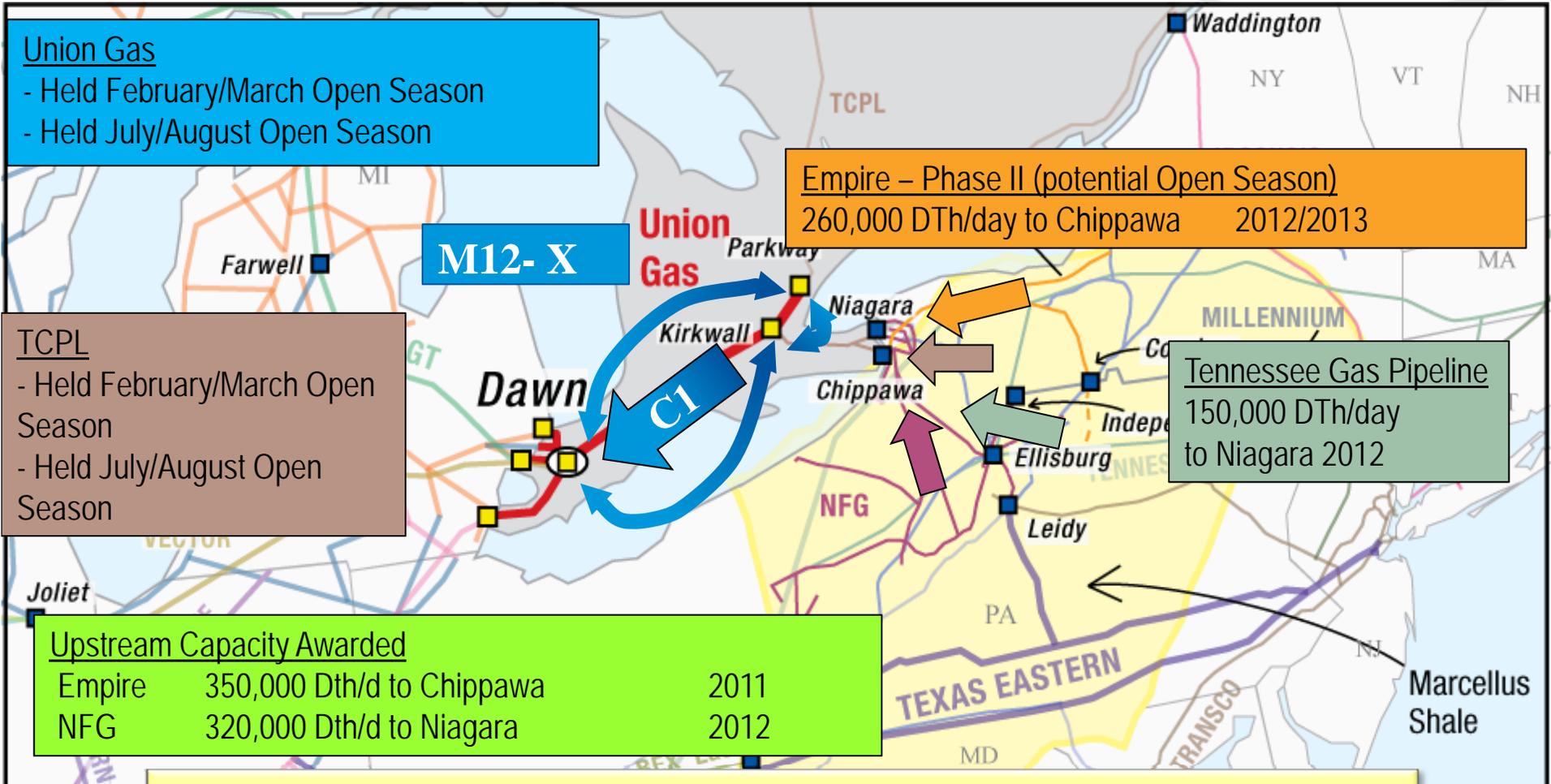
New service (Dawn-to-Dawn (TCPL)) added to allow reverse flow west out of Dawn into TCPL (Great Lakes)

- As long haul flows declined on TCPL, TCPL required this new service in order to physically move gas “around the horn” to meet its short haul obligations at Parkway and points east.
- Gas flows approximately 3800 km “around the horn” rather than 250 km Dawn to Parkway.
- Although moving gas back to Manitoba and forward again to Parkway is inefficient, it is necessary until Parkway to Maple is expanded so that gas can then simply move from Parkway to Maple directly



A “stop-gap” service has been added. A required permanent solution is a Parkway to Maple expansion

Marcellus Imports



Interconnecting pipelines are working together to bring Marcellus Supply to Ontario

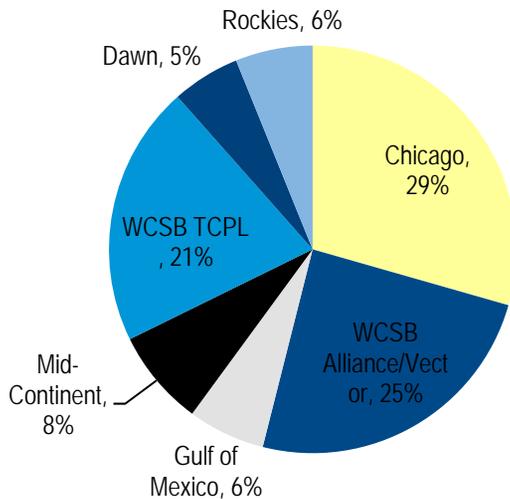
- TCPL has engaged the industry through their Tolls Task Force to evaluate changes to the TCPL framework to bring lower stabilized tolls
- Union supports the initiative, assuming:
 - Short haul tolls are kept as low as possible and not compromised by shifting long haul costs to short haul paths. Dawn will only stay relevant if volumes can be shipped within Ontario and to east markets competitively (otherwise other paths will emerge and bypass Ontario)
 - Expanding capacity between Parkway and Maple is a priority

Competitive short haul tolls and a Parkway to Maple expansion is essential to the Ontario market

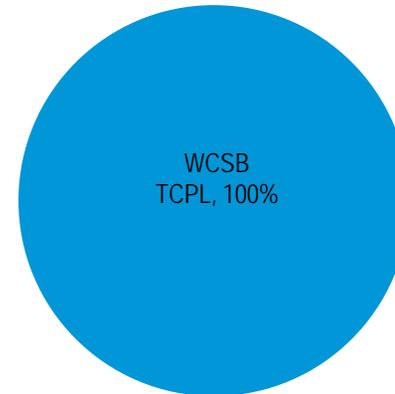
Changes to System Supply



Current South Portfolio



Current North Portfolio



TCPL long haul lands 93¢/gj (20%) more expensive than Dawn supply

Future:

1. Union Gas is actively working to bring supply **diversity to the North** by 2013
 - Requires new services to allow "backhaul" and peaking service from Parkway to the north
 - Participated in TCPL open season for service from Parkway to the EDA and the NDA
2. Union Gas participated in TCPL open season to allow **Marcellus supply** (through Niagara) into the north and south supply mix for 2012
3. Should consider a Dawn reference price for Ontario LDCs as supplies change

Greater supply diversity will be available for Ontario

Urgent Need to Expand Parkway to Maple



Purpose

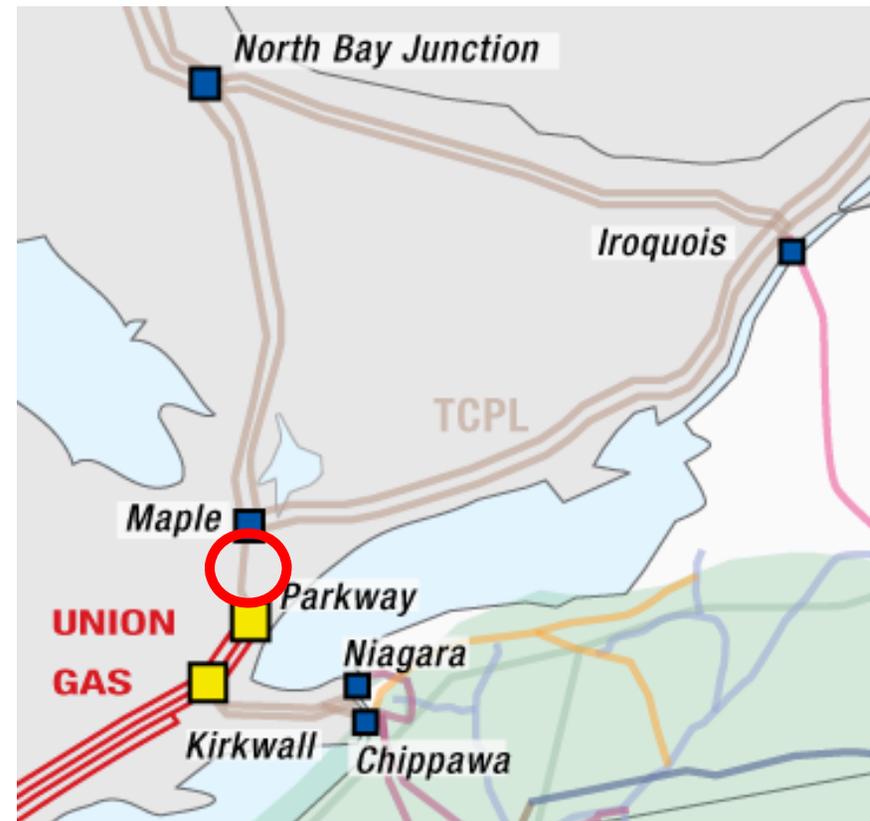
- To relieve capacity constraint between Parkway and Maple. Current pipe is a 36" single line built in 1958 that is at capacity

Project Requirements

- Expand and/or build Parkway to Maple
- Incremental volume –1,000,000 GJ/d
- In-service 2013 or sooner

Benefits

- Supports liquidity and growth at Dawn
- Provides increased security of supply for Ontario
- Provides greater diversity of supply for Ontario
- Allows Dawn-Trafalgar system to be re-purposed from Kirkwall exports to Parkway exports



Bottleneck from Parkway to Maple is limiting the movement of supply into and around Ontario

Looking Out – Next 5 Years

In Union's view it is essential for Ontario to preserve and grow the liquidity at Dawn in order to maintain cost effective supply for consumers

How?

- Expand capacity between Parkway and Maple to support increased supply diversity for all of Ontario, and increased security of supply for customers downstream of Parkway
- Continue to let the market work and adapt
- Continue timely regulatory approval for new services and facilities (like Dawn-to-Dawn (TCPL))
- Continue to support alternative forms of regulation (like NEB Group 2).
- Support (by the Ministry and OEB) the growth of Dawn and Dawn liquidity and the growth of incremental supply paths to Ontario

Dawn liquidity is essential in providing cost effective gas to Ontario

Appendix

Need for Parkway to Maple Expansion



TCPL Obligations vs Capacity for Dawn to Points East:

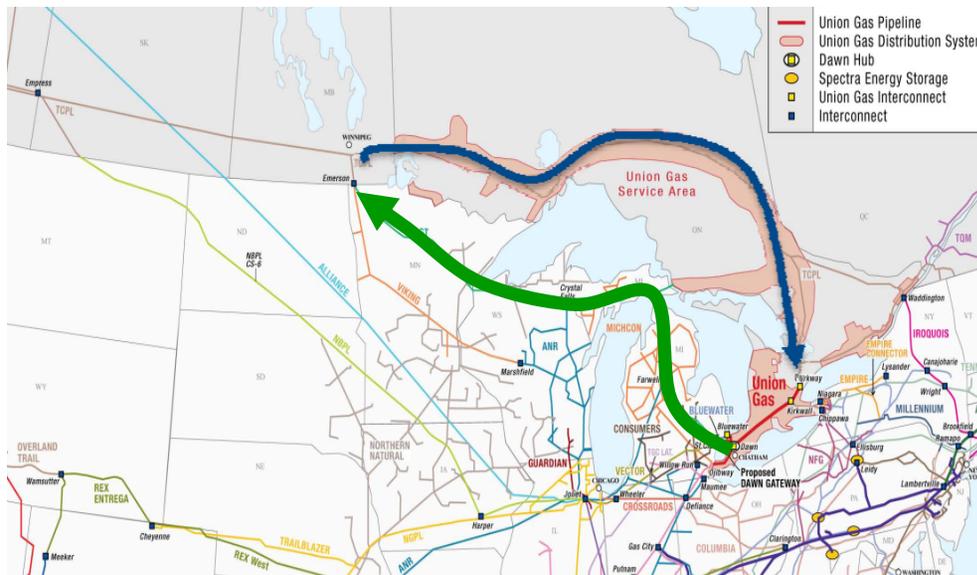


- TCPL has historically contracted with shippers to move gas from Dawn to points east
- Since 2003 these contracts have been of greater volume than TCPL's ability to serve physically through the Dawn-Parkway system (red line on graph)

Since 2003 TCPL's Dawn to Parkway (and points east) obligations exceeded its physical contracted capacity

How does "Around the Horn" work

- Customer A - has gas at Dawn, and they nominate to TCPL to have the gas moved to Parkway tomorrow
- Customer B - has gas at Empress (Alberta) and nominates to have the gas delivered to Dawn tomorrow
- TCPL would flow gas for Customer B from Empress to Emerson and "divert" the gas to Parkway. At Parkway, TCPL will deliver Customer B's gas to Customer A, to satisfy Customer A's nomination



- At Dawn, TCPL gives Customer B, Customer A's gas to fulfil Customer B's nomination
- This works well provided Customer B's gas is equal to or larger than Customer A's gas in quantity
- If it is not, TCPL would need to physically move some or all of Customer A's gas "around the horn"

Moving gas around the horn undermines the efficient movement of gas around and through Ontario