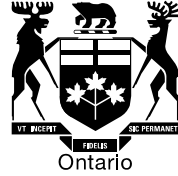


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BY E-MAIL ONLY

November 11, 2010

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

Dear Ms. Walli:

**Re: Board Staff Submission
Union Gas Limited
Request for Approval to Amend Approved C1 and M12 Rate Schedules
Board File No. EB-2010-0296**

Please find attached the Board staff submission with respect to the above noted proceeding.

Yours truly,

Original Signed By

Lawrie Gluck
Case Manager

Attachments

C: Karen Hockin, Manager Regulatory Initiatives, Union Gas Limited
All Intervenors of Record



ONTARIO ENERGY BOARD

BOARD STAFF SUBMISSION

Union Gas Limited

C1 Kirkwall to Dawn & M12-X Transportation Services

Board File No. EB-2010-0296

November 11, 2010

Introduction

Union Gas Limited (“Union” or the “Applicant”) filed an application on September 30, 2010 with the Ontario Energy Board (the “Board”) seeking approval to modify its current approved C1 rate schedule to accommodate firm transportation service from Union’s interconnect at Kirkwall to Dawn, effective September 1, 2011. The Applicant is also seeking approval to modify its current approved M12 rate schedule to accommodate a firm, bi-directional, M12-X transportation service, effective September 1, 2011.

Customer Need

Union recently held two non-binding open seasons specific to the proposed transportation services. As a result of the first open season (held in February and March, 2010), Union received over 800,000 GJ/day of non-binding interest from producers, marketers and LDCs for service starting September 2011. Following the first open season, Union executed 10-year firm M12-X transportation service contracts with TransCanada Pipelines and Enbridge Gas Distribution Inc. to convert a total of approximately 328,000 GJ/day of existing M12 service to the new M12-X service beginning September 2011.

After the close of the first open season, Union received additional inquiries regarding the proposed services and capacity on the path. Consequently, Union re-opened the non-binding open season in July 2010. Union received over 1,200,000 GJ/day of non-binding interest for transportation service commencing as early as July 2012.

Board staff is of the view that the proposed transportation service offerings have been designed by Union to meet the evolving needs of its customers as a result of changing North American gas supply dynamics.

Rate Design

The proposed rate for the C1 Kirkwall to Dawn firm transportation service consists of the following components:

- a) A firm monthly transportation demand charge of \$1.176/GJ applied to daily contracted demand. This component of the rate provides for a reasonable

recovery of the fixed costs associated with the assets used to provide the transportation service and to recover the costs associated with the new facilities necessary to provide the firm transportation service.

- b) A seasonal fuel ratio of 0.353% for the period April to October and 0.328% for the period November to March to recover compressor fuel and unaccounted for gas associated with providing the Kirkwall to Dawn transportation service.

Union noted that in order to receive volumes at Kirkwall and accommodate the proposed transportation services, Union must make modifications to its existing facilities at Kirkwall to allow for the reversal (and bi-directional flow) of the station. The estimated capital cost of the facilities is approximately \$4.7 million and construction is expected to occur in the summer of 2011 in order to meet contracted requirements.

Union has proposed to recover all the costs associated with the capital investment of \$4.7 million in the C1 Kirkwall to Dawn firm monthly demand charge. Board staff questioned whether the noted facility modifications are also required to provide the proposed M12-X service¹. Union confirmed that the facility modifications are necessary to provide the proposed M12-X transportation service.

Board staff asked Union to explain why none of the costs associated with the facility modifications were included in the firm demand charge for the proposed M12-X transportation service². Union stated that once it has a better understanding of how M12-X shippers will be utilizing Kirkwall as a receipt point; it will review the cost allocation and rate design of the M12-X and C1 transportation services. Union noted that this review will occur during its 2013 rebasing proceeding.

Board staff submits that Union's proposal to allocate all of the costs related to the facility modifications to C1 Kirkwall to Dawn customers, when the facility modifications are required to provide both C1 and M12-X services, does raise some concerns regarding Union's compliance with cost allocation principles. However, given the relatively small annual revenue requirement (\$0.266 million) related to the facility modifications and Union's uncertainty, at this time, regarding how shippers plan to use the new transportation services, Board staff submits that Union's proposal to review cost

¹ See Board Staff IR No. 3 (b).

² See Board Staff IR No. 3 (c).

allocation and rate design for the new transportation services at the time of rebasing is reasonable. Board staff submits that in its Decision, the Board should direct Union to complete a review of cost allocation and rate design for the M12-X and C1 Kirkwall to Dawn transportation services as part of its 2013 rebasing.

All of which is respectfully submitted.